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City and County of San Francisco **EMPLOYEES' RETIREMENT SYSTEM**

ANNUAL REPORT FOR FISCAL YEAR ENDED JUNE 30, 2005



MISSION STATEMENT

San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits



CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM

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ANNUAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2005

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PRESIDENT'S MESSAGE

INVESTING ASSETS • PROVIDING BENEFITS • SERVING MEMBERS

December, 2005

On behalf of the San Francisco Retirement System Board and staff, I am pleased to present, in its 73rd year, the Annual Report for the fiscal year **2004-2005**. Below are some highlights affecting our participants and the management of the System that occurred during the year.

- ◆ The Board approved a Business and Communications Plan adopted to provide more effective and efficient services to our members. Retirement staff now conducts one-day Pre-Retirement and Mid-Career Retirement planning seminars to inform members of their benefits and help in estimating pension benefits, as well as an overview of the deferred compensation plan. The Board also initiated semi-annual newsletters to active and retired members to better educate them on plan provisions and inform them of changes occurring during the year.
- ◆ The Board initiated a process to enhance the System's web site, starting with web-based appointment scheduling, access to change of address and Electronic Funds Transfer authorization forms, and the posting of current and prior annual reports. Additional enhancements are being planned.
- ◆ The Board authorized an actuarial audit and survey of "best practices" of other pension funds.
- ◆ The Board implemented a currency overlay program on our international portfolio to reduce risk.
- ◆ The Board adopted Supplemental Cost of Living Adjustments (COLAs) for retirees effective July 1, 2004.
- ◆ In an effort to continue its priority on governance issues, the Board updated various policies. Further, each policy affecting the Board is regularly under review for relevance, effectiveness and revision.

We are very proud of these accomplishments. In regard to investments, the Retirement Board remains diligent and dedicated to our mission statement to protect and prudently invest the Pension Fund's assets. The value of the Pension Fund remains strong and the Investment Portfolio continues to grow with changes in the world's capital markets. We remain committed to providing exemplary service to the City's employees and retirees and to ensuring the security of benefits for the plan's retirees and beneficiaries.

Finally, the Retirement Board would like to thank our staff for their continued hard work, commitment, and focus on customer service. As an institution with over 50,000 participants, we would not have been able to achieve these accomplishments, let alone day-to-day activities, without staff's dedicated service and commitment to excellence. The Board appreciates the efforts of staff, and wants to make sure that all active members, retirees and beneficiaries of the plan know that.

With best wishes,

Joe Driscoll

Retirement Board, City and County of San Francisco

THE RETIREMENT SYSTEM

The San Francisco Employees' Retirement System (SFERS) was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement.

THE RETIREMENT BOARD

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets once each month and reviews and approves important elements of Retirement System business, including:

PENSION FUND INVESTMENT

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

ACTUARIAL FUNDING

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

ACTIVE AND RETIRED MEMBERS

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost of living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.

ADMINISTRATION AND MANAGEMENT

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

MEMBERS OF THE 2004-2005 SFERS RETIREMENT BOARD

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

Al Casciato Lieutenant, Police Department	Elected Member February 2010
Joseph D. Driscoll, C.F.A. Lieutenant, Fire Department	Elected Member February 2006
E. David Ellington Entrepreneur/Attorney	Appointed Member February 2009
Michael Kim Partner Rustic Canyon Partners	Appointed Member February 2009
Herb Meiberger, C.F.A. Security Analyst, San Francisco Employees' Retirement System	Elected Member February 2007
Gerardo Sandoval Member, Board of Supervisors	Ex-Officio Member January 2006
Brenda Wright Senior Vice President Regional Manager Community Development	Appointed Member February 2008

SFERS SENIOR ADMINISTRATIVE STAFF

ADMINISTRATION:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Carol Cypert, CRA, CRC	Deferred Compensation Manager
Norm Nickens	Executive Assistant

INVESTMENT DIVISION:

David Kushner, C.F.A.	Deputy Director for Investments
William Coaker, MBA, CFP, CIMA Equities	Senior Investment Officer
Donald Holcher Real Estate	Senior Investment Officer
Richard Piket Fixed Income	Senior Investment Officer
Glen Schwartz Alternative Investments	Senior Investment Officer

RETIREMENT SERVICES DIVISION:

Maria Newport	Retirement Administrator
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FISCAL DIVISION:

Jim Burruel	Finance Manager
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ACTUARY DIVISION:

Clare M. Murphy	Acting Actuary
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2004 - 2005 San Francisco Employees' Retirement System and Board Highlights:

Financial (Note: financial information is generally presented in thousands in the report)

- The assets of SFERS exceeded its liabilities at the close of the year ended June 30, 2005. The Plan held \$13,135,263 of net assets in trust for pension benefits. All of the net assets are available to meet SFERS' ongoing obligations to plan participants and their beneficiaries.
- SFERS' funding objective is to meet long-term benefit obligations through contributions and investment income. As of June 30, 2004, the date of the last actuarial valuation, the funded ratio for SFERS was 104%. In general, this indicates that for every dollar of benefits due, we have approximately \$1.04 of assets available for payment.
- For the year ended June 30, 2005, SFERS' net investment gain was \$1,534,997 compared to net investment gain of \$1,710,888 in the prior year. This represents a 12.9% investment gain for the year ended June 30, 2005.
- Total net assets held in trust for pension benefits increased by \$1,227,905, or 10.3%, primarily due to the Plan's investment gain offset against the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to \$164,365 compared to \$170,550 in the prior year, a decrease of \$6,185, or 3.6%.
- In order to maintain the fiscal soundness of the Plan, the City and County of San Francisco (the City and County) was required to make employer contributions to the Plan that totaled \$83,664 for the year ended June 30, 2005.
- Total deductions increased from \$507,093 in the prior year to \$555,121, an increase of 9.5%, due to increased benefits paid during the fiscal year.

General Operations

- August 2004, SFERS implemented a new format for the annual member statements sent to all active members.
- November 2004, the Retirement Board approved establishment of a 401(a) Tax Deferred Plan for deferral of lump-sum payments of vacation pay, sick leave, and compensatory time.
- November 2004, the Retirement Board approved the annual 2004-05 Business Plan, including a Communications Plan establishing semi-annual newsletters for active and retired members.
- January 2005, the Retirement Board adopted a resolution urging the Mayor and Board of Supervisors to oppose a proposed Assembly Constitutional Amendment that would have limited California public employees to defined contribution pension plans.
- April 2005, the Retirement Board received a report on Proposition F Early Retirement costs for retirements effective through January 31, 2005. The Proposition F Early Retirement Program was extended by the Board of Supervisors through FY 2005-06.

Actuarial Activities

- October 2004, the Retirement Board approved a recommendation to provide for interim actuarial support services.
- December 2004, the Retirement Board reviewed economic experience analysis and adopted revised economic assumptions.
- December 2004, the Retirement Board approved Supplemental Cost of Living Adjustments for retirees' retroactive to July 1, 2004.
- January 2005, the Retirement Board reviewed the SFERS demographic experience over the period June 30, 2001 to June 30, 2004 and adopted new demographic assumptions.
- February 2005, the Retirement Board reviewed and adopted an Actuarial Valuation as of July 1, 2004 and adopted employer contribution rate for 2005-06, a credited interest rate for 2005-06, and new operating factor tables.

Investment

- July 2004, the Retirement Board approved parameters for purchase and sale of secondary partnership interests.
- September 2004, the Retirement Board approved a new policy on disclosure of information in the Real Estate and Alternative Investment Classes.
- November 2004, approved a recommendation to invest up to \$50 million in Secondary Co-Investment Fund-of-Funds
- November 2004, the Retirement Board approved the selection of Barclays Global Investors, N.A., Bridgewater Associates, Inc., and Pareto Partners to manage a currency overlay program.
- February 2005, the Retirement Board approved a recommendation for Proxy Voting Guidelines for 2005.
- March 2005, the Retirement Board approved a recommendation for the adoption of Currency Management Program Investment Guidelines.
- April 2005, the Retirement Board approved an addendum to the previously adopted Proxy Voting Guidelines in the area of majority vs. plurality voting.

Alternative Investment Program

- July 2004, the Retirement Board approved a recommendation to commit up to \$15 million with Knightsbridge Fund VI, LP.
- August 2004, the Retirement Board approved a recommendation to invest up to \$10 million with Parish Capital Management.

- September 2004, the Retirement Board approved a recommendation to invest up to \$15 million in Providence Equity Partners Fund V.
- September 2004, the Retirement Board approved a recommendation to invest up to \$15 million in Matlin Patterson Global Opportunities Partners II.
- October 2004, the Retirement Board approved a recommendation to invest up to €20 million in APAX Partners VI.
- November 2004, approved recommendation to invest up to \$20 million in ABRY Partners
- January 2005, the Retirement Board approved a recommendation to invest up to \$25 million in Weston Presidio V, LP.
- February 2005, the Retirement Board approved a recommendation to invest up to \$20 million in Oak Hill Capital Partners II, LP.
- April 2005, the Retirement Board approved a recommendation to commit up to \$15 million to Bay Partners XI, LP.
- May 2005, the Retirement Board approved a recommendation to invest up to \$30 million in Summit Partners VII, LP.
- June 2005, the Retirement Board approved a recommendation to commit up to €15 million to Palamon European Equity Partners II, LP.

Real Estate

- June 2005, the Retirement Board discussed entry into international real estate, including the approval of a recommendation to invest up to \$50 million in the AMB Japan Fund.

Litigation

- During the year, the SFERS and the Office of the City Attorney pursued a number of securities litigation actions, including Enron, Safety-Kleen, and AIG.
- September 2004, the Retirement Board approved an RFP for Outside Legal Services (excluding securities litigation) and in May 2005, the Retirement Board approved the outside counsel list.
- April 2005, the Retirement Board approved a separate RFQ for Securities Litigation and Class Action Counsel.
- May 2005, with the recommendation of the Office of the City Attorney, the Retirement Board approved a settlement in Safety-Kleen bond-holders litigation.

Deferred Compensation

- July 2004, the Retirement Board approved a revised core investment fund line-up and mapping for the 457(b) Deferred Compensation Plan
- September 2004, the Retirement Board approved an RFP for a 457(b) Deferred Compensation Plan Investment Consultant.
- April 2005, the Retirement Board approved the selection of Angeles Investment as the Investment Consultant for the 457(b) Deferred Compensation Plan.

SFERS ADMINISTRATION

Administering mandated benefit programs and providing promised benefits

ADMINISTRATION DIVISION

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Record and Retention Policy. The Disability applications and subsequent hearings before an Administrative Law Judge are processed by the Administration Division in consultation with the Workers Compensation Division of the Department of Human Resources.

ACTUARIAL SERVICES

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System. The Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary until the position of in-house actuary is filled.

SAN FRANCISCO 457(B) DEFERRED COMPENSATION PLAN

The Deferred Compensation Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The SFERS Deferred Compensation Division oversees and monitors the City's Deferred Compensation Plan through a third-party plan administrator, currently ING Life Insurance and Annuity Company. The Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, request for proposals, and review of investment fund assessments.

During the past year the Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 18 core investment funds including a fixed account and access to a self-directed brokerage option.

Deferred Compensation

The Retirement Board reviewed the Investment Performance Analysis provided by KPMG Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the core investment fund lineup.

The Retirement Board reviewed responses to the Request for Proposal (RFP) for Investment Consultant in 2004-05 and selected Angeles Investment Advisors, LLC with a three-year contract to expire in 2009 including an option to extend for one two-year renewal or two one-year renewals.

As a result of the RFP process for Plan Administrator in the 2003-2004 fiscal year, the Retirement Board elected to make changes to the core investment fund lineup effective September 27, 2004. Changes included elimination of under performing funds, addition of new funds with lower expense ratios, and a new custom generic naming convention for all core investment funds.

Changes To The Core Investment Lineup During The 2004-2005 Fiscal Year:

PREVIOUS INVESTMENT FUND TRANSFERRED ON 09/27/04	TO ⇒	NEW INVESTMENT FUND (CUSTOM NAME) Underlying Investment Fund(s) Name
ING VP International Value Portfolio - Class I	⇒	SFDCP International Equity Portfolio EuroPacific Growth Fund® - Class R-4
Ariel Fund	⇒	SFDCP Small Cap Value Equity Portfolio Ariel Fund
No current investment option in this investment style	N/A	SFDCP Small Cap Core Equity Portfolio 50% SFDCP Small Cap Value Equity Portfolio 50% SFDCP Small Cap Growth Equity Portfolio
ING VP Small Company Portfolio - Class I	⇒	SFDCP Small Cap Growth Equity Portfolio Vanguard® Variable Insurance Fund – Small Company Growth Portfolio
ING JPMorgan Mid Cap Value Portfolio - Initial Class	⇒	SFDCP Mid Cap Value Equity Portfolio ING JPMorgan Mid Cap Value Portfolio - Initial Class
ING VP Index Plus MidCap Portfolio - Class I	⇒	SFDCP Mid Cap Core Equity Portfolio Fidelity® VIP Mid Cap Portfolio - Initial Class
No current investment option in this investment style	N/A	SFDCP Mid Cap Growth Equity Portfolio Goldman Sachs Growth Opportunities - I Shares
ING VP Value Opportunity Portfolio - Class I	⇒	SFDCP Large Cap Value Equity Portfolio Lord Abbett Affiliated Fund - Class Y
No current investment option in this investment style	N/A	SFDCP Large Cap Core Equity – Active Portfolio Fidelity® VIP Contrafund® Portfolio - Initial Class
ING VP Index Plus LargeCap Portfolio - Class I	⇒	SFDCP Large Cap Core Equity - S&P 500 Index Vanguard® Institutional Index Fund - Institutional Shares
Vanguard® 500 Index Fund - Investor Shares	⇒	
CCSF Long Term Portfolio	⇒	SFDCP Long Term Portfolio A diversified portfolio comprised of core investment options.

PREVIOUS INVESTMENT FUND TRANSFERRED ON 09/27/04	TO ⇒	NEW INVESTMENT FUND (CUSTOM NAME) Underlying Investment Fund(s) Name
Citizens Emerging Growth Fund - Administrative Shares	⇒	SFDCP Large Cap Social Equity Portfolio Vanguard® Calvert Social Index Fund – Investor Shares
AIM V.I. Capital Appreciation Fund Series - I Shares	⇒	SFDCP Large Cap Growth Equity Portfolio 50% ING T. Rowe Price Growth Equity Portfolio - Initial Class 50% The Growth Fund of America® - Class R-4
ING T. Rowe Price Growth Equity Portfolio – Initial Class	⇒	
ING VP Growth Portfolio - Class I	⇒	
ING VP Balanced Portfolio - Class I	⇒	SFDCP Mid Term Portfolio A diversified portfolio comprised of core investment options.
CCSF Mid Term Portfolio	⇒	
CCSF Near Term Portfolio	⇒	SFDCP Near Term Portfolio A diversified portfolio comprised of core investment options.
ING VP Intermediate Bond Portfolio - Class I	⇒	SFDCP Core Bond Portfolio PIMCO Total Return Fund - Institutional Shares
ING Fixed Account – 457/401	⇒	SFDCP Stable Value Portfolio ING Fixed Account – 457/401
ING VP Money Market Portfolio - Class I	⇒	
ING Ultimate Account (Self-Directed Brokerage)	⇒	Harrisdirect (Self-Directed Brokerage)

Other significant enhancements to the Plan by the Retirement Board include a semi-annual 457(b) Deferred Compensation Plan Newsletter entitled “SFDCP News”. SFDCP News includes featured articles about program enhancements, provides participants with ongoing education, showcases investment performance, and communicates system enhancements made to the deferred compensation custom web site managed by ING Life Insurance and Annuity Company (ING).

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going enhancements, well performing investment funds and a competitive fee structure.

The following table provides detailed information related to the City's 457(b) Deferred Compensation Plan for Fiscal Year 2004-2005.

CITY AND COUNTY OF SAN FRANCISCO
457(b) DEFERRED COMPENSATION PLAN
PLAN VALUES 06/30/05

PREVIOUS INVESTMENT FUND TRANSFERRED ON 09/27/2004	TO ⇒	NEW INVESTMENT FUND	ASSETS AS OF 06/30/2005	PERCENT OF CURRENT ASSETS
ING VP International Value Portfolio - Class I	⇒	SFDCP International Equity Portfolio	\$72,292,387	6.07%
Ariel Fund	⇒	SFDCP Small Cap Value Equity Portfolio	\$52,128,702	4.38%
No option in this investment style	⇒	SFDCP Small Cap Core Equity Portfolio	\$1,900,603	0.16%
ING VP Small Company Portfolio - Class I	⇒	SFDCP Small Cap Growth Equity Portfolio	\$15,175,118	1.28%
ING JPMorgan Mid Cap Value Portfolio - Initial Class	⇒	SFDCP Mid Cap Value Equity Portfolio	\$10,474,274	0.88%
ING VP Index Plus MidCap Portfolio - Class I	⇒	SFDCP Mid Cap Core Equity Portfolio	\$26,286,634	2.21%
No option in this investment style	⇒	SFDCP Mid Cap Growth Equity Portfolio	\$1,143,630	0.10%
ING VP Value Opportunity Portfolio - Class I	⇒	SFDCP Large Cap Value Equity Portfolio	\$19,608,192	1.65%
No option in this investment style	⇒	SFDCP Large Cap Core Equity – Active Portfolio	\$5,757,802	0.48%
ING VP Index Plus LargeCap Portfolio - Class I	⇒	SFDCP Large Cap Core Equity - S&P 500 Index	\$77,657,432	6.52%
Vanguard® 500 Index Fund – Investor Shares	⇒	SFDCP Large Cap Core Equity - S&P 500 Index		
AIM V.I. Capital Appreciation Fund Series - I Shares	⇒	SFDCP Large Cap Growth Equity Portfolio		
ING T. Rowe Price Growth Equity Portfolio – Initial Class	⇒	SFDCP Large Cap Growth Equity Portfolio		
ING VP Growth Portfolio - Class I	⇒	SFDCP Large Cap Growth Equity Portfolio	\$231,238,474	19.42%
Citizens Emerging Growth Fund - Administrative Shares	⇒	SFDCP Large Cap Social Equity Portfolio		
CCSF Long Term Portfolio	⇒	SFDCP Long Term Portfolio		
ING VP Balanced Portfolio - Class I	⇒	SFDCP Mid Term Portfolio		
CCSF Mid Term Portfolio	⇒	SFDCP Mid Term Portfolio	\$140,359,129	11.79%
CCSF Near Term Portfolio	⇒	SFDCP Near Term Portfolio		
ING VP Intermediate Bond Portfolio - Class I	⇒	SFDCP Core Bond Portfolio		
ING Fixed Account – 457/401	⇒	SFDCP Stable Value Portfolio	\$461,088,143	38.73%
ING VP Money Market Portfolio - Class I	⇒	SFDCP Stable Value Portfolio		
ING Ultimate Account (Self-Directed Brokerage)	⇒	Harrisdirect (Self-Directed Brokerage)	\$6,848,519	0.58%
Total Investment Funds at ING			\$1,190,465,559	100.00%
Total Annuity Assets at ING			\$1,710,710	
Total Annuity Assets at The Hartford			\$26,480,375	
TOTAL PLAN ASSETS			\$1,218,656,644	

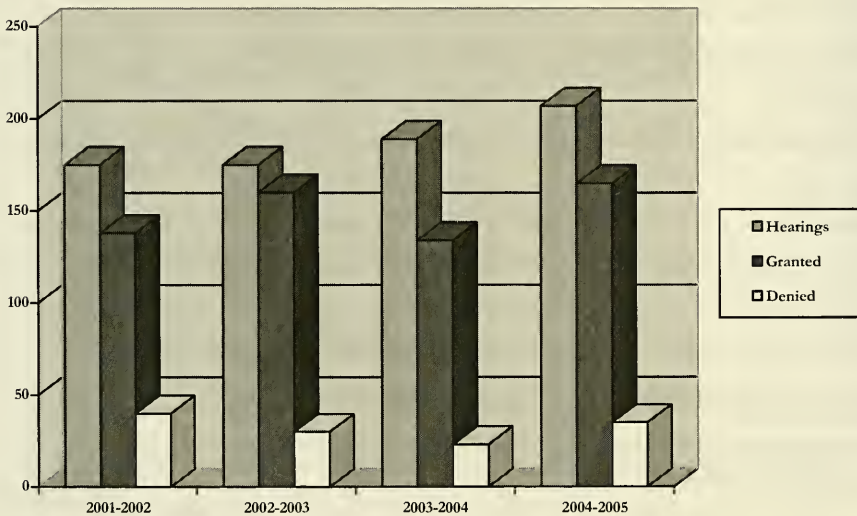
Number of Active Plan Participants:	21,790
Number of Retirees Not Receiving Benefits	1,317
Retirees Receiving Benefits from Hartford:	547
Retirees Receiving Benefits from ING:	1,077
Total Retiree Assets:	\$218,572,894

HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2005

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
INDUSTRIAL DISABILITY RETIREMENTS	91	70	16
ORDINARY DISABILITY RETIREMENTS	107	86	7
DEATH BENEFITS	8	0	0
PETITIONS FOR REHEARING	NA	0	11
PERS	8	0	0
REINSTATEMENTS	8	0	0
TOTAL	207	165	35

*The number of hearings does not equal number of decisions because many decisions are held over from the previous year due to the time required in the preparation of cases for disability hearings and are not reported.

HEARING OFFICER REPORT FOUR-YEAR COMPARISON



INVESTMENT DIVISION

Dedicated to securing, protecting and prudently investing the pension trust assets

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the 70 years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional Staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division's professional Staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2005, approximately 21% of SFERS Trust Fund assets were managed internally, including \$798.3 million in domestic bonds and \$1.81 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including Domestic and Global Fixed Income, Domestic and International Equities, Real Estate and Alternative Investments.

INVESTMENT PERFORMANCE HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2005

For the fiscal year ended June 30, 2005, the Investment Portfolio of the Retirement System was a beneficiary of a rebound in economic and capital market growth, ending the fiscal year with a return of 12.63%. Equities (Domestic and International combined) continued double-digit growth, returning 11.20%. On a broad asset class basis, the stellar performers for the year were Alternative Investments, returning 22.74%, and Real Estate, returning 17.47%. Fixed Income returns rebounded to 10.71% led primarily by Global Fixed Income exposure.

◆ Equity

Returns for the combined equity portfolio were 11.20%. The US equity portfolio return was 7.89%, underperforming the Russell 3000 benchmark return of 8.05% by 16 basis points. The International equity portfolio offset the modest returns of the domestic markets, returning 17.88%, exceeding the benchmark of 16.47% by 1.41%. The strongest returns were achieved in the emerging markets sector of the portfolio (returning 34.33%); however, all sectors of the portfolio contributed to the positive returns.

◆ Fixed Income

Despite rising short-term interest rates, the Fixed Income portfolio turned in a strong performance for the fiscal year ended June 30, 2005. The Fixed Income asset class provided a 10.71% rate of return for the fiscal year versus the benchmark Lehman Universal/Aggregate return of 7.58%. Domestic Fixed Income returns of 9.12% for the fiscal year were sound and the Trust's exposure to Global Fixed Income securities enhanced the return substantially, providing a 15.13% rate of return for the fiscal year. Retirement staff concentrated on investment manager guidelines and the more effective management of the internal Fixed Income portfolio.

◆ **Alternative Investments**

The one-year performance of SFERS' Alternative Investment portfolio was a 22.7% return as of June 30, 2005. Over a ten-year investment period, the Alternative Investment portfolio provided a 17.7% annualized return, exceeding the performance benchmark for the portfolio - the S&P 500 plus 500 basis points over a rolling ten-year period – by 178 basis points.

◆ **Real Estate**

The Real Estate portfolio's return of 17.47% outperformed its benchmark – the PREA National Property Index (NPI) – by 1.92% for the fiscal year ended June 30, 2005. For the three-year period ended June 30, 2005, the Real Estate portfolio return of 10.1% underperformed the NPI three-year benchmark of 10.74%; however, for the five-year period ended June 30, 2005, the portfolio return of 11.06% exceeded the NPI five-year benchmark return of 11.02%.

During the fiscal year, the Retirement Board approved a target allocation of up to 12% of the Real Estate portfolio in international assets. While SFERS has invested in European funds historically, this allocation is extremely small relative to the total Real Estate portfolio. In June 2005, as a first step toward increasing international exposure where long-term growth rates and expected returns are greater than those available in the US, the Retirement Board approved an investment in Japanese industrial properties through the AMB Japan Fund.

INVESTMENT PORTFOLIO PERFORMANCE

ANNUALIZED RETURNS FOR THE PERIODS ENDING 6/30/2005

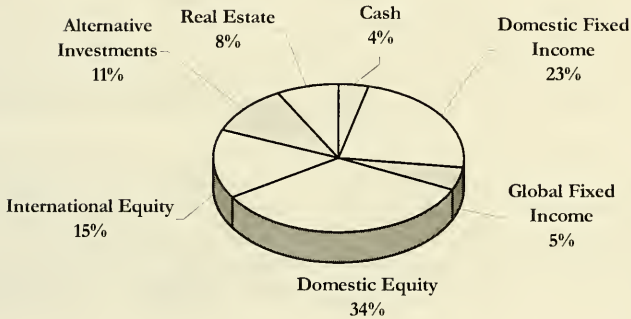
	One Year	3 Years	5 Years
DOMESTIC EQUITY (benchmark: Russell 3000)	7.89% 8.05%	8.76% 9.46%	-0.80% -1.35%
INTERNATIONAL EQUITY (benchmark: MSCI ACWI Free ex US)	17.88% 16.47%	14.60% 13.63%	-0.58% 0.42%
DOMESTIC FIXED INCOME (benchmark: Lehman Universal)	9.12% 7.42%	9.09% 6.56%	9.24% 7.63%
GLOBAL FIXED INCOME (benchmark: Lehman Global)	15.13% 8.20%	12.03% 5.74%	10.21% 5.69%
REAL ESTATE (benchmark: NCREIF)	17.47% 15.55%	10.07% 10.74%	9.43% 10.15%
ALTERNATIVE ASSETS (benchmark: S&P500 + 6% through 12/31/02 and S&P500 + 5% thereafter)	22.74% 11.32%	9.92% 14.28%	-1.15% 3.63%
TOTAL FUND (weighted policy benchmark)	12.63% 10.64%	10.44% 9.79%	2.91% 3.02%

Source: Real Estate returns as calculated by the Townsend Group. All other returns as calculated by The Northern Trust Company.

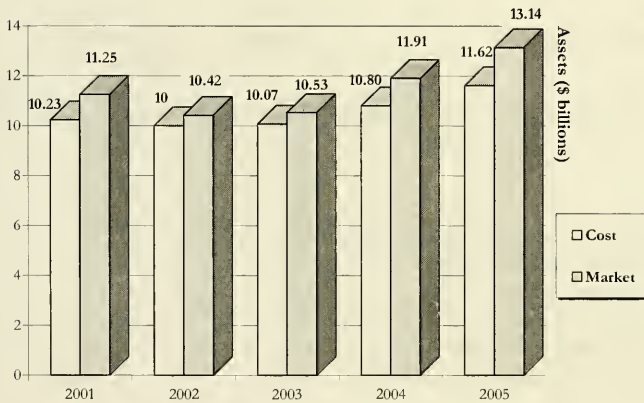
The following pages contain charts illustrating:

- ◆ Asset Allocation as of June 30, 2005
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2005

ASSET ALLOCATION AS OF JUNE 30, 2005 MARKET VALUE



PENSION FUND NET ASSETS



INVESTMENT EARNINGS AND ASSETS
THREE YEAR HISTORY
(NOT INCLUDING ASSETS RECEIVABLE BUT NOT YET INVESTED)

FISCAL YEAR ENDED JUNE 30:

2005	2004	2003
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INVESTMENT EARNINGS

EQUITY DIVIDEND INCOME	\$ 121,030,110	\$ 95,691,417	\$ 73,414,536
REAL ESTATE INCOME	50,043,062	58,276,612	45,588,220
ALTERNATIVE INVESTMENT INCOME	82,763,365	40,142,042	2,082,909
REALIZED GAINS/(LOSS)	561,435,485	649,859,830	(57,840,866)
UNREALIZED GAINS/(LOSS)	551,073,327	721,511,931	181,844,163
INTEREST	188,211,091	161,531,000	174,461,000
OTHER INCOME: INTEREST, SECURITIES LENDING, DOLLAR ROLL AND RECAPTURED COMMISSIONS	8,053,200	8,576,106	8,119,112
TOTAL INVESTMENT EARNINGS	\$ 1,562,609,640	\$ 1,735,588,938	\$ 427,669,074

FISCAL YEAR ENDED JUNE 30:

2005	2004	2003
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PORTFOLIO ASSETS - FAIR VALUE

FIXED INCOME	\$ 3,629,226,794	\$ 3,381,353,573	\$ 3,015,932,047
EQUITIES	6,425,337,310	5,947,900,326	5,002,450,859
REAL ESTATE	1,084,785,351	958,368,355	953,533,290
ALTERNATIVE INVESTMENTS	1,436,795,576	1,311,960,487	1,249,167,293
MONEY MARKET ASSETS	559,117,965	307,606,100	305,012,031
TOTAL FAIR VALUE OF PORTFOLIO	\$ 13,135,262,996	\$ 11,907,188,841	\$ 10,526,095,520

SAN FRANCISCO CITY AND COUNTY EMPLOYEE RETIREMENT SYSTEM

SUMMARY OF ASSETS AS OF JUNE 30, 2005

CATEGORY	COST	% OF TOTAL	MARKET	% OF TOTAL
CASH & CASH EQUIVALENTS	\$ 554,515,919	4.78%	\$ 559,117,965	4.26%
EQUITIES				
BASIC INDUSTRIES	114,964,279	0.99%	150,548,945	1.15%
CAPITAL GOODS INDUSTRIES	168,212,704	1.45%	241,023,407	1.83%
CONSUMER DURABLES	58,516,846	0.50%	60,355,532	0.46%
CONSUMER NON-DURABLES & SERVICES	872,181,917	7.51%	1,132,390,571	8.62%
ENERGY	110,126,530	0.95%	195,800,343	1.49%
FINANCIAL SERVICES	528,223,646	4.55%	718,289,968	5.47%
MISCELLANEOUS	941,262,176	8.17%	1,308,306,210	9.96%
TECHNOLOGY	445,459,754	3.83%	503,877,424	3.84%
UTILITIES	159,487,055	1.37%	195,792,886	1.49%
FOREIGN STOCK	1,587,346,771	13.66%	1,918,952,024	14.61%
EQUITIES SUBTOTAL	4,985,781,678	42.92%	6,425,337,310	48.92%
FIXED INCOME				
BASIC INDUSTRIES	10,959,915	0.09%	12,084,276	0.09%
CAPITAL GOODS INDUSTRIES	-	-	-	-
CONSUMER DURABLES	-	-	-	-
CONSUMER NON-DURABLES & SERVICES	17,645,022	0.15%	18,102,297	0.14%
ENERGY	5,885,792	0.05%	6,442,763	0.05%
FINANCIAL SERVICES	505,023,121	4.35%	536,840,581	4.09%
MISCELLANEOUS	943,525,030	8.12%	989,481,140	7.53%
MORTGAGES	10,298,719	0.09%	10,206,789	0.08%
TECHNOLOGY	2,696,500	0.02%	580	0.00%
US GOVERNMENT	1,340,171,597	11.54%	1,366,463,600	10.40%
UTILITIES	7,928,262	0.07%	8,492,727	0.06%
FOREIGN GOVERNMENT AND CORPORATE	643,728,861	5.54%	681,112,041	5.19%
FIXED INCOME SUBTOTAL	3,487,863,819	30.02%	3,629,226,794	27.63%
OTHER INVESTMENTS				
REAL ESTATE	972,081,187	8.37%	1,084,785,351	8.26%
VENTURE CAPITAL & PARTNERSHIPS	1,617,002,865	13.92%	1,436,795,576	10.94%
OTHER INVESTMENTS SUBTOTAL	2,589,084,052	22.29%	2,521,580,927	19.20%
GRAND TOTAL	\$ 11,617,245,468	100.00%	\$ 13,135,262,996	100.00%

RETIREMENT SERVICES DIVISION

Administering mandated benefit programs and providing promised benefits

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement counseling.

SFERS PLAN MEMBERSHIP

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of multiple tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current Firefighter Plan and Police Plan benefits are established by Charter amendment passed in November 2002 and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000.

Miscellaneous Plan members are members of the Social Security System since September 1959 (City Charter §8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco. Plan membership is in effect as long as member contributions remain on deposit with SFERS.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems (e.g., deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; school teachers are members of the State Teachers Retirement System).

On September 1, 1995, Retirement System membership rules were changed: employees who earn 1040 hours of compensation or more during any 12-month period became eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, Old Plan Firefighter and Old Plan Police members were eligible to become members of SFERS under City Charter §§8.597 and 8.595 respectively, while New Plan Firefighter and New Plan Police members automatically became members of SFERS under City Charter §§8.598 and 8.596 under provisions of Proposition H passed by the voters in November 2002.

SFERS Plan Membership Charter References:

CHARTER SECTION	EMPLOYEE GROUP
8.509	Miscellaneous employees who became members before November 2, 1976
8.587	Miscellaneous employee who became members on or after November 2, 1976
8.559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
8.559-14 and 8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
8.595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
8.597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
8.585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
8.585-14 and 8.588	Firefighters who elected 1981 Proposition F (Buyout) benefits
8.596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
8.598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

SFERS MEMBERSHIP

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2005, there were 28,950 members of the Miscellaneous Plans, 2,190 members of the Police Plans and 1,665 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP AS OF JUNE 30, 2005

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
OLD MISCELLANEOUS PLAN MEMBERS BEFORE NOVEMBER 2, 1976	1,090	307	9	1,
NEW MISCELLANEOUS PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	24,349	2,417	733	27,499
OLD POLICE PLAN MEMBERS BEFORE NOVEMBER 2, 1976	97	0	0	97
NEW POLICE PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,998	84	13	2,093
OLD FIREFIGHTER PLAN MEMBERS BEFORE NOVEMBER 2, 1976	88	2	0	90
NEW FIREFIGHTER PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,544	23	8	1,575
TOTALS:	29,164	2,833	763	32,760

Miscellaneous Plan members comprise approximately 88.2% of the total SFERS Plan membership, with approximately 4.8% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.7% and 5.1% of the total membership, respectively.

**EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL**

COVERED PLAN YEAR	POLICE	FIREFIGHTER	MISCELLANEOUS
1995-1996 (1 ST HALF)	14.79%	12.44%	4.98%
1995-1996 (2 ND HALF)	12.69%	10.58%	4.29%
1996-1997 (1 ST HALF)	0%	0%	1.83%
1996-1997 (2 ND HALF)	0%	0%	0%
1998-2004	0%	0%	0%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%

Note: Rates of contribution are composite rates for Old and New groups.

**EMPLOYEE CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL**

PLAN MEMBERSHIP GROUP	RATE OF CONTRIBUTION
MISCELLANEOUS (OLD)*	8.00%
MISCELLANEOUS (NEW)	7.00%
POLICE (OLD)	7.00%
POLICE (NEW)	7.50%
FIREFIGHTER (OLD)	7.00%
FIREFIGHTER (NEW)	7.50%

*Contributions for Old Plan Miscellaneous Employees (City Charter §8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

SFERS RETIREMENT SERVICES

The following table summarizes the major activities of the SFERS Retirement Services Division during Plan Years 2003-2004 and 2004-2005:

ACTIVITY	2003-2004	2004-2005
RETIREMENT APPOINTMENTS	1475	1349
RETIREMENT APPLICATIONS PROCESSED	1123	1272
BUYBACK APPOINTMENTS	2613	1518
PERSONNEL TRANSACTIONS:	1559	1444
NEW MEMBERS (NEW HIRES)	758	717
NEW MEMBERS (1040 HOURS MEMBERSHIP)	598	410
REHIRES	114	145
FIRE RECRUITS	0	78
POLICE RECRUITS	89	90
SHERIFF RECRUITS	0	4
VISITORS	11,782	11,074
INCOMING CORRESPONDENCE	13,698	12,714
HOME VISITS	24	16
GROUP PRESENTATIONS	18	37
BENEFICIARY CHANGES	1351	1330
REFUND PACKETS	1224	1425
VERIFICATION OF PENSION OR BENEFIT DATA	1224	884
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2321	2810
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2193	2108
PRE-RETIREMENT SEMINARS	4	6
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	748	640
MID-CAREER RETIREMENT PLANNING SEMINARS	2	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	198	210
NEW MEMBER RETIREMENT PLANNING SEMINARS	1	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	98	62

Retirement appointments decreased 8.5% and retirement applications processed increased 13.3% in Plan Year 2004-2005 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted six pre-retirement seminars during Plan Year 2004-2005 that provided individualized benefit counseling for 640 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted two mid-career retirement planning seminars and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Unified School District and the Community College District.

SFERS Plan Member Communications: During Plan Year 2004-2005, SFERS Retirement Services Division produced and distributed over 32,000 Annual Member Statements to active SFERS members.

SFERS RETIREMENT STATISTICS FOR PLAN YEAR ENDED JUNE 30, 2005

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2004-2005, as well as benefits payment summaries and comparisons:

NEW RETIREMENTS EFFECTIVE DURING PLAN YEAR ENDED JUNE 30, 2005

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	863	274	N/A	41	1,178
FIREFIGHTER	56	0	9	0	65
POLICE	60	3	10	0	73
TOTALS:	* 979	277	19	41	1,316

*Total service retirements in Plan Year 2004-2005 includes 184 Early Retirement Program elections as well as applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements effective during Plan Year 2004-2005 was 33.7% higher than retirements in Plan Year 2003-2004 due primarily to the Early Retirement Program offered to certain Miscellaneous members during the year. Service retirements represent 74.4% of the total of new retirements processed.

Miscellaneous retirements represented 89.5% of the total retirements processed in Plan Year 2004-2005, an increase from 83.4% in Plan Year 2003-2004.

Firefighter retirements represented 4.9% of the total retirements processed in Plan Year 2004-2005, a decrease from 9.2% in Plan Year 2003-2004.

Police retirements represented 5.5% of the total retirements processed in Plan Year 2004-2005, a decrease from 7.4% in Plan Year 2003-2004.

MISCELLANEOUS PLAN RETIREMENTS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-4	9	6	0	15	1.3%
5-9	17	127	0	144	12.2%
10-14	83	79	19	181	15.4%
15-19	131	55	11	197	16.7%
20-24	208	6	6	220	18.7%
25-29	157	1	4	162	13.7%
30-34	156	0	1	157	13.3%
35-39	93	0	0	93	7.9%
40 and above	9	0	0	9	0.8%
TOTAL	863	274	41	1178	100.0%
PERCENT	73.3%	23.3%	3.5%	100.0%	

Approximately 64.3% of the total Miscellaneous Plan retirements had less than 25 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2004-2005 was 21.2 years.

Miscellaneous Plan service retirees were credited with an average of 24.6 years of service while those who retired for ordinary disability were credited with an average of 16.9 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	88	153	27	268	22.8%
55-59	184	72	14	270	22.9%
60-64	379	21	0	400	34.0%
65 AND OVER	212	28	0	240	20.4%
TOTAL	863	274	41	1178	100.0%

The average age of all Miscellaneous Plan members who retired in Plan Year 2004-2005 was 59.9 years; the average age of Miscellaneous Plan members who retired for Ordinary Disability was 52.2 years.

POLICE AND FIREFIGHTER PLAN MEMBERS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-4	0	1	1	2	1.5%
5-9	8	1	4	13	9.4%
10-14	2	0	2	4	2.9%
15-19	2	1	2	5	3.6%
20-24	9	0	1	10	7.2%
25-29	35	0	4	39	28.3%
30-34	53	0	3	56	40.6%
35 AND	7	0	2	9	6.5%
TOTAL	116	3	19	138	100%
PERCENT	84.1%	2.2%	13.8%	100%	

* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2004-2005

Approximately 24.6% of the total Police and Firefighter Plan retirements had less than 25 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2004-2005 was 26.4 years.

Police and Firefighter Plan service retirees were credited with an average of 27.7 years of service while those who retired for industrial disability were credited with an average of 20.7 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	40	3	13	56	40.6%
55-59	61	0	5	66	47.8%
60-64	15	0	1	16	11.6%
65 AND OVER	0	0	0	0	0.0%
TOTAL	116	3	19	138	100.0%

The average age of all Police and Firefighter Plan members who retired in Plan Year 2004-2005 was 55.4 years.

TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2005

RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2005:				
MISCELLANEOUS	13,720	1,900	N/A	15,620
MEMBER	11,385	1,356	N/A	12,741
CONTINUATION	2,335	544	N/A	2,879
FIREFIGHTER	915	922	42	1,879
MEMBER	649	665	-	1,314
CONTINUATION	266	257	42	565
POLICE	1,257	763	54	2,074
MEMBER	942	484	-	1,426
CONTINUATION	315	279	54	648
TOTAL	15,892	3,585	96	19,573

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2005, the total number of retirement allowances paid to retired members represented 79.1% of the total allowances paid; continuation allowances represented 20.9% of the total allowances paid.

MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2005

RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2005:				
MISCELLANEOUS	\$ 25,663,956	\$ 2,592,901	N/A	\$28,256,857
FIREFIGHTER	4,479,036	4,181,613	\$ 126,226	8,786,875
POLICE	5,649,582	2,662,718	187,410	8,499,710
TOTAL	\$ 35,792,574	\$ 9,437,232	\$ 313,636	\$45,543,442

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 62.0% of the total monthly retirement allowances paid during Plan Year 2004-2005.

Monthly retirement allowances paid to service retirees represented 78.6% of the total monthly retirement allowances and monthly disability benefits represented 20.7% of the total monthly retirement allowances paid during Plan Year 2004-2005.

DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2004-2005	2003-2004	2002-2003
NUMBER OF DEATHS:			
ACTIVE MEMBERS	54	55	57
RETIRED MEMBERS	504	530	513
CONTINUANTS	205	191	214
TOTAL	763	776	784
NUMBER OF DEATH BENEFITS PAID:			
DUE TO ACTIVE MEMBER DEATHS			
REFUND OF CONTRIBUTIONS	56	81	72
INDUSTRIAL DEATH ALLOWANCES	0	0	0
6 MONTHS EARNABLE SALARY	51	77	70
SUBTOTAL	107	158	142
DUE TO RETIRED MEMBER DEATHS			
CONTINUATION	234	276	250
OPTION 1 (REFUND OF MEMBER ACCUMULATED CONTRIBUTIONS) \$100/YEAR FOR EACH YEAR OF SERVICE (MAXIMUM \$3,000)	37	34	42
	485	606	618
SUBTOTAL	756	916	910
TOTAL	863	1074	1052

The number of death notices received during Plan Year 2004-2005 decreased by 1.7% from Plan Year 2003-2004.

There was a 32.3% increase in the number of benefits paid due to the death of active members in Plan Year 2004-2005 from the previous Plan Year. In Plan Year 2004-2005, the total number of death benefits payments processed due to the deaths of active and retired members increased 19.6% over the previous Plan Year.

WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
AS OF 6/30/2005				
MISCELLANEOUS	664		\$ 8,355,336	
FIREFIGHTER	0		0	
POLICE	15		167,039	
TOTAL	679	(4.1%)	\$ 8,522,375	11.3%
AS OF 6/30/2004				
MISCELLANEOUS	681		\$ 7,179,989	
FIREFIGHTER	2		42,737	
POLICE	25		435,118	
TOTAL	708	(15.4%)	\$ 7,657,844	(6.8%)
AS OF 6/30/2003				
MISCELLANEOUS	817		\$ 7,955,804	
FIREFIGHTER	4		104,476	
POLICE	16		153,997	
TOTAL	837	(36.9%)	\$ 8,214,277	(15.2%)

FISCAL DIVISION

Administering mandated benefit programs and providing promised benefits

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include:

- Net Assets held in trust for Pension Benefits
- Statement of Changes in Plan Net Assets
- Actuarial Report and Historical Information
- Disclosures as required by Governmental Accounting Standards Board (GASB)

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the Employees' Retirement System is adequately funded at all times.

The accompanying audited statements of net assets available for pension benefits as of June 30, 2005, and 2004 and the related statements of changes in net assets held in trust for pension benefits are presented to provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2005. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the independent auditors.

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
RETIREMENT SERVICES/ADMINISTRATION DIVISIONS**

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2004-2005	2003-2004	2002-2003
PERSONNEL SERVICES	\$ 4,790,890	\$ 4,386,050	\$ 4,500,386
EQUIPMENT PURCHASE	49,742	77,999	74,669
MATERIALS AND SUPPLIES	153,149	132,526	88,733
SERVICES OF OTHER DEPARTMENTS	4,092,215	4,795,078	4,941,764
OTHER SERVICES	1,507,484	1,318,664	1,139,438
TOTAL	\$ 10,593,480	\$ 10,710,317	\$ 10,744,990

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
INVESTMENT DIVISION**

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2004-2005	2003-2004	2002-2003
PERSONNEL SERVICES	\$ 1,659,436	\$ 1,429,766	\$ 1,427,269
EQUIPMENT PURCHASE	33,227	0	7,105
MATERIALS AND SUPPLIES	6,125	12,314	6,660
SERVICES OF OTHER DEPARTMENTS	401,532	287,425	610,800
OTHER SERVICES	25,074,914	22,581,091	18,638,294
TOTAL	\$ 27,175,234	\$ 24,310,596	\$ 20,690,128

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
ALL DIVISIONS**

GRAND TOTAL	\$ 37,768,714	\$ 35,020,913	\$ 31,435,118
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SFERS PENSION FUND INVESTMENT INCOME
PLAN YEAR 2004-2005

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
CITY AND COUNTY CONTRIBUTIONS			\$83,663,367
EMPLOYEE CONTRIBUTIONS			164,365,209
INTEREST EARNED			188,211,091
DIVIDENDS EARNED			121,030,110
SECURITIES LENDING INCOME - NET			7,047,737
DOLLAR ROLL INCOME - NET			366,908
RECAPTURED COMMISSION INCOME - NET			271,729
REAL ESTATE INCOME			50,043,062
ALTERNATIVE INVESTMENT INCOME			82,763,365
INVESTMENT EXPENSES			(27,175,234)
TOTAL INCOME:			\$670,587,344
NET APPRECIATION IN FAIR VALUES			
SHORT-TERM SECURITIES	\$ 3,372,621	\$ 15,402,490	\$ 18,775,111
EQUITIES	361,408,663	198,999,078	560,407,741
DEBT SECURITIES	65,751,717	101,338,072	167,089,789
REAL ESTATE	17,492,882	78,616,885	96,109,767
VENTURE CAPITAL	113,167,772	156,873,904	270,041,676
OTHER ASSETS	241,830	(181,481)	60,349
TOTAL NET APPRECIATION:	\$ 561,435,485	\$ 551,048,948	\$ 1,112,484,433
TOTAL INCOME AND NET APPRECIATION:			\$ 1,783,071,777
INCREASE/(DECREASE) FROM FY 2003-2004:			\$ (98,367,030)

SFERS PENSION FUND DISBURSEMENTS

PLAN YEAR 2004-2005

PAYMENTS/EXPENSES	AMOUNT
SERVICE RETIREMENT PAYMENTS	\$ 394,806,623
DISABILITY RETIREMENT PAYMENTS	105,494,822
PROPOSITION C – COST OF LIVING ADJUSTMENT	25,884,556
DEATH ALLOWANCE PAYMENTS	3,983,088
DEATH BENEFITS	2,330,591
NORMAL CONTRIBUTIONS PAID AS DEATH BENEFIT	1,987,804
RETIRED ANNUITANT ROLLS (OPTION 1 DEATH BENEFIT)	1,474,318
REFUNDS OF CONTRIBUTIONS	8,565,088
ADMINISTRATIVE EXPENSES: RETIREMENT SERVICES/ ADMINISTRATION	10,593,480
TOTAL PAYMENTS & EXPENSES:	\$ 555,120,370
INCREASE/(DECREASE) FROM FY 2003-2004:	\$ 48,045,259

SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

Employer (City and County) Contributions

Up until Plan Year 2004-2005, the City and County of San Francisco had not been required to make employer contributions since 1996 due to the funding status of the Plan.

MEMBER PLAN	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004	PLAN YEAR 2002-2003
MISCELLANEOUS PLAN	\$ 69,122,769	\$ -	\$ -
FIREFIGHTER PLAN	6,184,668	-	-
POLICE PLAN	8,355,929	-	-
TOTAL	\$ 83,663,366	\$ -	\$ -

Employee Contributions

MEMBER PLAN	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004	PLAN YEAR 2002-2003
MISCELLANEOUS PLAN	\$ 139,442,651	\$ 144,973,403	\$ 156,350,260
FIREFIGHTER PLAN	10,689,574	11,778,242	11,744,300
POLICE PLAN	14,232,985	13,798,516	13,975,304
TOTAL	\$ 164,365,210	\$ 170,550,161	\$ 182,069,864

**SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS**

JUNE 30, 2005 AND 2004

Information derived from audited Financial Statements

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
	(in thousands)	
Deposits	\$ 17,986	\$ 16,441
Contributions receivable – members	4,922	4,542
Contributions receivable – City and County	2,736	-
Investment income receivable:		
Interest	26,616	23,280
Dividends	8,096	6,404
Securities lending	1,579	719
Dollar Roll	201	225
Receivables from brokers, general partners, others	54,247	103,941
Investments at fair value		
Short-term bills and notes	622,621	808,181
Debt securities:		
U. S. government securities	1,372,895	1,263,547
Other debt securities	2,256,332	2,117,807
Equity securities	6,425,337	5,947,900
Real Estate	1,084,786	958,368
Venture capital	1,436,796	1,311,960
Forward currency contracts, net	13,254	-
Investments in lending agents' short term investment pool	<u>1,600,111</u>	<u>1,356,618</u>
TOTAL INVESTMENTS:	<u>\$ 14,812,132</u>	<u>\$ 13,764,381</u>
TOTAL ASSETS:	<u>\$ 14,928,515</u>	<u>\$ 13,919,933</u>
 <u>LIABILITIES</u>		
Payable to brokers	\$ 98,585	\$ 446,432
Obligations under fixed coupon dollar repurchase agreements	85,000	199,000
Foreign Currency Contracts, net	-	3,558
Other liabilities	9,556	6,967
Payable to borrowers of securities	<u>1,600,111</u>	<u>1,356,618</u>
TOTAL LIABILITIES:	<u>1,793,252</u>	<u>2,012,575</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	<u>\$ 13,135,263</u>	<u>\$ 11,907,358</u>

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

Information derived from audited Financial Statements

	2005	2004
	(in thousands)	
ADDITIONS		
Member contributions:		
Miscellaneous	\$ 139,442	\$ 144,973
Firefighter	14,233	13,799
Police	10,690	11,778
Total Member Contributions	\$ 164,365	\$ 170,550
City and County contributions:		
Miscellaneous	\$ 69,123	\$ -
Firefighter	8,356	-
Police	6,185	-
Total City Contributions	\$ 83,664	\$ -
Investment income (expenses)		
Interest	188,854	161,532
Dividends	121,030	95,691
Net (depreciation) appreciation in fair value of investments	1,245,926	1,470,606
Securities lending income	34,183	15,391
Fixed coupon dollar repurchase agreement income	4,923	3,083
Investment expenses	(28,228)	(24,700)
Securities lending borrower rebates and expenses	(27,135)	(8,786)
Fixed coupon dollar repurchase agreement finance charges and expenses	(4,556)	(1,928)
Investment gain/(loss), net	1,534,997	1,710,888
Total additions/(deductions)	\$ 1,783,026	\$ 1,881,438
DEDUCTIONS		
Benefits	535,963	488,448
Refunds of contributions	8,565	7,935
Administrative expenses	10,593	10,710
Total Deductions	\$ 555,121	\$ 507,093
Net increase/(decrease)	\$ 1,227,905	\$ 1,374,345
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	\$ 11,907,358	\$ 10,533,013
End of year	\$ 13,135,263	\$ 11,907,358

ACTUARIAL SUMMARY

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2004 data. The results were first published in February 2005.

ASSUMPTIONS AND METHOD

The main assumptions used to measure the System's liabilities for future benefits payments were:

Investment Returns	8.00% per year
Base Wage Increases	4.50% per year
Merit and Promotion	Wage Increases 1.3%, approximately (varies by group and years of service)
Retiree Mortality	1994 Group Annuity Mortality Table

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.

KEY RESULTS

Using the method and assumptions detailed above, the key findings of the latest valuation were:

Funded Status

Actuarial Liability	10,885,455,000
Actuarial Value of Assets	<u>11,299,997,000</u>
Unfunded Liability <Surplus>	\$ <414,542,000>
Funded Status (assets / liabilities)	104%

Employer (City and County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2005-2006 were derived from the following actuarial valuation results:

NORMAL COST	15.06%
UNFUNDED LIABILITY & OTHER COSTS	(0.96)%
EMPLOYEE CONTRIBUTIONS	7.52%
CITY CONTRIBUTION RATE	6.58%
BOARD APPROVED CITY CONTRIBUTION RATE	6.58%

City and County of San Francisco

EMPLOYEES' RETIREMENT SYSTEM

ANNUAL REPORT

for Fiscal Year Ended June 30, 2006





CITY AND COUNTY OF SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM

MISSION STATEMENT

*San Francisco City and County Employees' Retirement System
is dedicated to securing, protecting and prudently investing the
pension trust assets, administering mandated benefit programs,
and providing promised benefits*

ANNUAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2006

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PRESIDENT'S MESSAGE

INVESTING ASSETS ● PROVIDING BENEFITS ● SERVING MEMBERS

On behalf of the San Francisco Employees' Retirement System (SFERS) Board and staff, I am pleased to present the Annual Report for Fiscal Year 2005-06.

The Retirement Board and staff at SFERS work steadily to provide excellent services to our 50,000 members and their survivors without additional resources.

Below are some of the highlights affecting our members and the management of the system that occurred during the year:

- SFERS management information system (MIS) continues to improve. This enables the retirement counselors to give more timely and up-to-date information to members applying for retirement or seeking to update their personal records. The SFERS web site was enhanced to include an Early Retirement Program Scheduler, Buyback Appointment Scheduler, and a Retirement Appointment Scheduler. Members may also request a retirement estimate in writing.
- Our investment returns were 13.46%, which was an exceptional year and moved us to the level of \$14.4 billion. This helps keep our funded ratio at 109% (one of the highest public funds in the United States). More importantly, it will lead to paying the voter approved supplemental COLA for the Fiscal Year 2005-06 to retirees at the rate of 3% rather than 2⁰/₁₀.
- SFERS was nominated for and received an award as Public Plan of the Year finalist from Institutional Investor in October, 2005.
- Retirement seminars to educate active employees about their benefits increased. We continue to survey members for suggestions on how to improve these seminars and services in general. All this is part of our Communications Plan.
- The Retirement Board continues to improve our own rules of governance so the decision-making will improve. This helps set the policies for retirement counseling and investing that will benefit all the members.
- We continue to improve the Deferred Compensation savings plan that covers half of the active employees, including finding better investment choices and lowering fees for members.

The Retirement Board would like to thank our staff for their continued hard work and the members for the confidence you place in us.

With best wishes,

Brenda Wright, President
Retirement Board, City and County of San Francisco

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THE RETIREMENT SYSTEM

The San Francisco Employees' Retirement System (SFERS) was created under the direction of the San Francisco Board of Administration in 1922. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan, and
- San Francisco Deferred Compensation Plan, an IRS §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans.

The San Francisco Employees' Retirement System Pension Plan provides retirement, disability and death benefits to its miscellaneous and safety members.

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement.

THE RETIREMENT BOARD

The Retirement Board of the San Francisco Employees' Retirement System is responsible for managing the investment of the Retirement System's assets, establishing policies governing the administration, management, and operation of the retirement plans, and reviewing and approving benefit determinations. The Retirement Board generally meets once each month and reviews and approves important elements of Retirement System business, including:

PENSION FUND INVESTMENT

The Retirement Board monitors investment performance, establishes investment strategies, selects and monitors outside investment managers, monitors investment alternatives, and establishes and reviews the Retirement System's social investment policies.

ACTUARIAL FUNDING

The Retirement Board reviews plan funding annually and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan.

ACTIVE AND RETIRED MEMBERS

The Retirement Board reviews and approves member retirement benefits, including service and disability retirements, and other active or retired member claims related to special circumstances or litigation. Each year, the Retirement Board reviews and approves cost of living adjustments (COLAs) for retired members as determined by the San Francisco City Charter.

ADMINISTRATION AND MANAGEMENT

The Retirement Board reviews and approves the SFERS Pension Plan's administrative, investment, and operations budget in accordance with the San Francisco City Charter and the California Constitution and the San Francisco Deferred Compensation Plan budget in accordance with the San Francisco Administrative Code.

MEMBERS OF THE 2005-2006 SFERS RETIREMENT BOARD

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

Current members of the Retirement Board and their term expiration dates are:

Al Casciato
Captain, Police Department

Elected Member
February 2010

Joseph D. Driscoll, C.F.A.
Captain, Fire Department

Elected Member
February 2011

E. David Ellington
Entrepreneur/Attorney

Appointed Member
February 2009

Sean Elsbernd
Member, Board of Supervisors

Ex-Officio Member
January 2007

Michael Kim
Partner
Rustic Canyon Partners

Appointed Member
February 2009

Herb Meiberger, C.F.A.
Retiree

Elected Member
February 2007

Gerardo Sandoval
Member, Board of Supervisors

Former Ex-Officio Member
January 2006

Brenda Wright
Senior Vice President
Regional Manager Community Development

Appointed Member
February 2008

SFERS SENIOR ADMINISTRATIVE STAFF

ADMINISTRATION:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Carol Cypert, CRA, CRC	Deferred Compensation Manager
Norm Nickens	Executive Assistant

INVESTMENT DIVISION:

David Kushner, C.F.A.	Deputy Director for Investments
William Coaker, MBA, CFP, CIMA, CFA Equities	Senior Investment Officer
Donald Holcher Real Estate	Senior Investment Officer
Richard Picket Fixed Income	Senior Investment Officer
Glen Schwartz Alternative Investments	Senior Investment Officer

RETIREMENT SERVICES DIVISION:

Maria Newport	Retirement Administrator
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FISCAL DIVISION:

Jim Burrue	Finance Manager
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ACTUARY DIVISION:

Clare M. Murphy	Acting Actuary
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2005 - 2006 San Francisco Employees' Retirement System and Board Highlights:

Governance:

In accordance with the Retirement Board's policies the Board received scheduled reports, engaged in budget and planning activities, and adopted a variety of governance policy amendments including:

Scheduled Reports:

- Semi-Annual Business Plan Implementation Report;
- Annual Governance Report for 2004;

Budget and Planning Activities:

- Business Plan for 2006-2007, Including Communications Plan;
- 2006-2007 SFERS Budget;

Policy Amendments:

- Securities Litigation Policy;
- Board Operations Policy, including Elimination of the former Retirement Board Rules;
- Disability Hearing Policy and Elimination of former Retirement Board Rule 5; and,
- Public Service Purchase Policy.

The Retirement Board elected Officers for 2006 – 2007 (President Casciato and Vice-President Kim).

The Retirement Board Declared a Vacancy on Retirement Board Occurring February 20, 2007 upon the expiration of Commissioner Meiberger's term.

SFERS was nominated for and received an award as Public Plan of the Year finalist from Institutional Investor in October, 2005.

Actuarial:

The Retirement Board engaged in discussion of a number of actuarial matters during 2005-2006, most importantly receiving and implementing recommendations resulting from the actuarial audit which had been commissioned during the prior fiscal year. The Board adopted an Actuarial Methods policy detailing the asset smoothing method and transition method also as a result of the actuarial audit. An additional actuarial study reviewed by the Retirement Board was the Cost Analysis of proposed transfer of District Attorneys/Public Defender Attorneys/Public Defender Investigators to CalPERS.

Among the regularly occurring actuarial activities were:

- Supplemental COLA Report;
- Economic Experience Analysis and Adoption of Economic Assumptions;
- Determination and Approval of Credited Interest Rate for July 1, 2006;
- Adoption of Actuarial Valuation as of June 20, 2005;
- Adoption of Employer Contribution Rates Effective July 1, 2006; and,
- Approval of Cost of Living Adjustment (COLA) for Retirees Subject to Charter Section A8.526.

Finally the Retirement Board reviewed the position description of the position of Actuary and determined that it be revised to the Actuarial Services Coordinator position which has been forwarded to the Department of Human Resources for finalization of classification and recruitment.



Litigation/Legislation:

The Board received regular reports from staff and the Office of the City Attorney regarding on-going or anticipated litigation, and proposed legislative changes that might impact the System.

These included:

- The Retirement Board was provided with a report on the Superior Court decision in *VPOA v. SFERS* which upheld SFERS; case is on appeal;
- The Retirement Board received reports on a number of cases upholding previous action taken by the Board;
- The Retirement Board received an Update on a proposed Constitutional Amendment introduced by Assemblyman Richman which would have required a defined contribution or hybrid pension system for State employees in California. The Amendment was not voted out of committee in the legislature.
- Staff and the City Attorney reported on the Securities Litigation Tracking System and provided updates regarding the Enron and WorldCom cases, which are still pending. The Board adopted a pre-approved Securities Litigation Counsel List.

Deferred Compensation Plan:

The Board received regular reports from staff regarding the performance and administration of the 457(b) Deferred Compensation Plan, and adopted a variety of policy and Plan amendments including:

- Scheduled Reports;
- Semi-Annual Investment Performance Analysis, provided by Angeles Investment Advisors;
- 2005 Annual Plan Review; provided by ING Life Insurance and Annuity Company;

Policy and Plan Amendments:

- Reinstatement of the option to “Defer a Portion of Accumulated Lump-Sum Payments” to the City and County of San Francisco 457(b) Deferred Compensation Plan;
- Modifications to the San Francisco 457(b) Deferred Compensation Plan Investment Policy Statement;
- Asset Allocations for the San Francisco 457(b) Deferred Compensation Plan Lifestyle Portfolios;
- Addition of Morgan Stanley Institutional Real Estate A, Real Estate Investment Trust (REIT) to the Core investment Fund Line-up within the 457(b) Deferred Compensation Plan;
- Amendments to the 457(b) Deferred Compensation Plan Document; and,
- Delegation of Authority to staff to Approve Unforeseeable Emergency Withdrawal from the 457(b) Deferred Compensation Plan.

In addition, the City and County of San Francisco was honored at the annual meeting of the National Association of Government Defined Contribution Administrators (NAGDCA) with a 2005 Leadership Recognition Award for 457 Plan Design and Communication

Investment:**Policy**

Consistent with the Retirement Board's Investment Policy, the Retirement board adopted the following investment policies:

- Revised Asset Allocation;
- Amended Sub Asset Class Targets and Ranges;
- Amended Investment Policy Statement;
- Strategic Investment Plan for Alternative Investment Program;
- Annual Investment Plan for Alternative Investment Program;
- Public Disclosure of Information in the Real Estate and Alternative Investment Asset Classes;
- Proxy Voting Guidelines for 2006;
- Real Estate Strategic Investment Plan; and,
- Fiscal Year 2006-2007 Annual Investment Plan for Real Estate

The Board also received a report on the results of the Mapping Asset-Knowledge Principles (Map) survey conducted by Cortex Applied Research with the members of the Retirement Board.

The Board reviewed and adopted a complete Asset/Liability and Asset Allocation Study.

The Board adopted Procedures Related to Investments in Corporations Conducting Business in Sudan under Level II of its Social Investment Policy.

Alternative Investment Commitments

The Retirement Board authorized the following commitments to various alternative investment partnerships in accordance with the annual investment plan:

Buy Out:

- July 12, 2005, Vestar Partners, \$25 million
- September 13, 2005, Apollo Investment Fund VI, L.P., \$20 million
- January 10, 2006, Blackstone Capital Partners V, L.P., \$30 Million
- February 14, 2006, Charterhouse Capital Partners, VIII, L.P., €20 Million
- March 14, 2006, Madison Dearborn Capital Partners V, L.P., \$30 Million
- March 14, 2006, TPG Partners V, L.P., \$30 Million
- May 9, 2006, Fox Paine Fund III, L.P., \$25 Million
- June 13, 2006, First Reserve Fund XI, L.P., \$30 Million
- June 13, 2006, Lightyear Fund II, L.P., \$20 Million

Venture:

- January 10, 2006, Polaris Venture Partners V, L.P., \$30 Million
- March 14, 2006, TA Associates X, L.P., \$30 Million

Special Situations:

- October 11, 2005, OCM Opportunities Fund VI, L.P., \$15 million
- March 14, 2006, TA Associates Subordinated Debt Fund II, L.P., \$20 Million
- April 11, 2006, Strategic Asset Restructuring (STAR) Fund II, L.P., €20 Million
- May 9, 2006, Windjammer Senior Equity Fund III, L.P., \$20 Million

In addition, on August 9, 2005 the Retirement Board rescinded a commitment to Bunker Hill Partners I, L.P.

Real Estate Commitments



The 2005-2006 fiscal year was characterized by expansion of the Retirement Board's initiative authorizing non U.S. real estate investments and commitments to urban infill strategies as shown below:

Non U.S.:

- September 13, 2005, GMAC Asia Co-investment Program, \$50 million
- October 11, 2005, Blackstone International Real Estate (Europe) Fund, \$25 million

Urban Infill:

- February 14, 2006, CIM Urban REIT, LLC, \$25 Million
- February 14, 2006, Urban America LP Fund II, \$25 Million

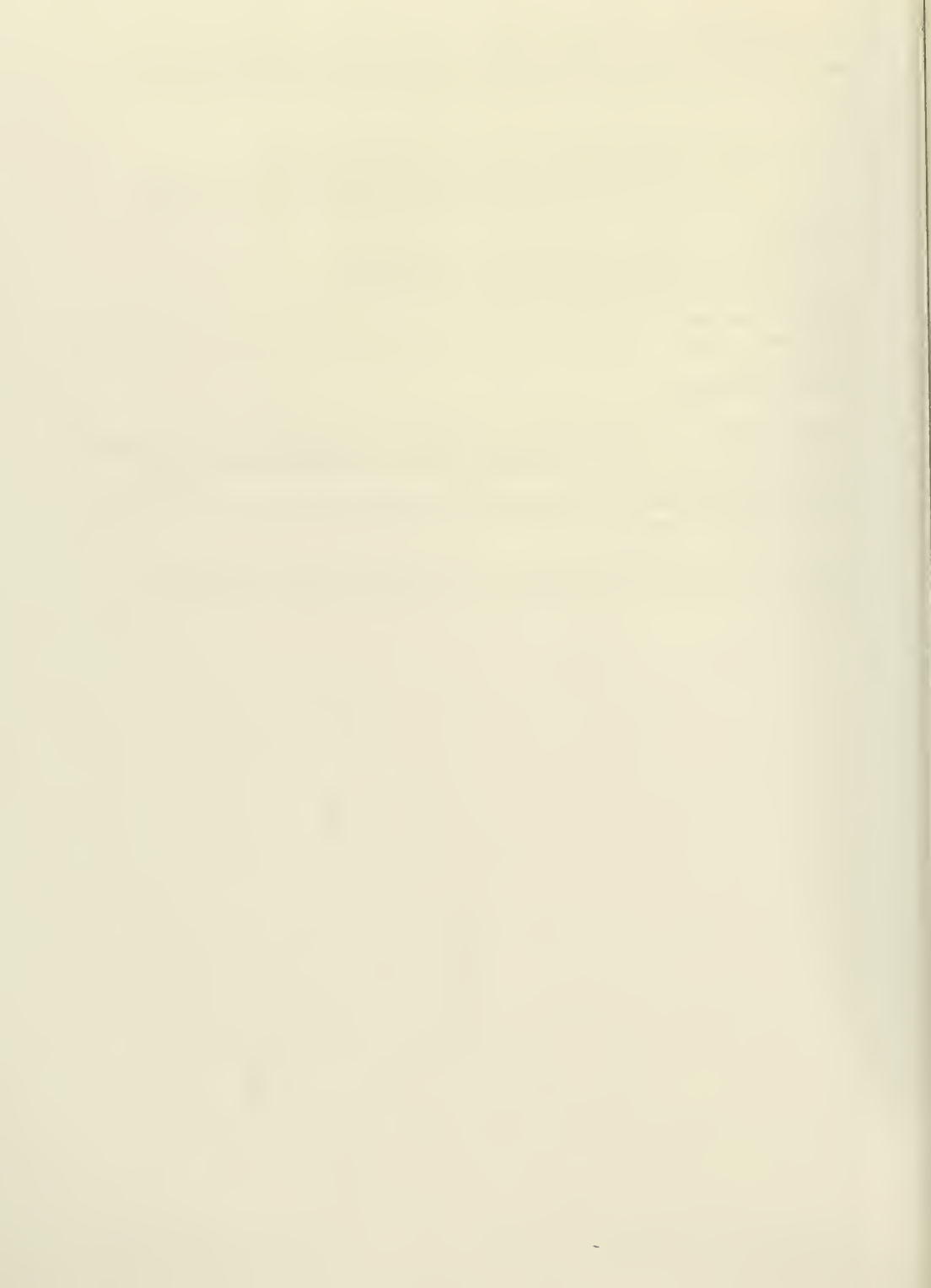
Finally the Board approved retention of the Townsend Group as the Non-Discretionary Real Estate Investment Consultant.

Equities/Public Markets

October 11, 2005 Approval of Recommendation for Manager of Emerging Managers: Approval of Bivium as a manager of US Domestic Small Cap Managers for Emerging Manager Program

November 8, 2005 Approval of Investment Guidelines for Bivium Capital partners, Manager of Emerging Small Cap Managers

December 13, 2005 Approval of Recommendation to Appoint Emerging Markets Equity Manager(s)



SFERS ADMINISTRATION

Administering mandated benefit programs and providing promised benefits

ADMINISTRATION DIVISION

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in the preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Sunshine Act. The Disability applications and subsequent hearings before an Administrative Law Judge are processed by the Administration Division in consultation with the Workers Compensation Division of the Department of Human Resources.

ACTUARIAL SERVICES

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs and in reporting actuarial information related to the benefit structure and funding of the Retirement System. The Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary until the position of Actuarial Services Coordinator is filled.

San Francisco 457(b) Deferred Compensation Plan

The 457(b) Deferred Compensation Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator, currently ING Life Insurance and Annuity Company. The Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, request for proposals, SFDCP News, and review of investment fund assessments.

During the past year the 457(b) Deferred Compensation Plan grew in assets and in number of participants. The Plan offers a diverse selection of 19 core investment funds including access to a self-directed brokerage option.

The following table provides detailed information related to the City's 457(b) Deferred Compensation Plan for Fiscal Year 2005-2006.

CITY AND COUNTY OF SAN FRANCISCO
457(b) DEFERRED COMPENSATION PLAN
PLAN VALUES 06/30/06

FUND NAME	TOTAL ASSETS	PERCENT OF TOTAL ASSETS
Ameritrade - Self Directed Brokerage Account	\$8,166,452.72	0.60%
ING Ultimate Account	\$23,000.00	0.00%
SFDCP Core Bond Portfolio	\$32,985,534.76	2.41%
SFDCP International Equity Portfolio	\$105,561,529.14	7.73%
SFDCP Large Cap Core Equity - Active Portfolio	\$18,063,601.04	1.32%
SFDCP Large Cap Core Equity - S&P 500 Index	\$81,021,478.70	5.93%
SFDCP Large Cap Growth Equity Portfolio	\$246,469,847.54	18.04%
SFDCP Large Cap Social Equity Portfolio	\$4,903,459.15	0.36%
SFDCP Large Cap Value Equity Portfolio	\$22,227,481.28	1.63%
SFDCP Long Term Portfolio	\$40,589,093.75	2.97%
SFDCP Mid Cap Core Equity Portfolio	\$46,184,734.02	3.38%
SFDCP Mid Cap Growth Equity Portfolio	\$1,792,588.74	0.13%
SFDCP Mid Cap Value Equity Portfolio	\$9,128,990.87	0.67%
SFDCP Mid Term Portfolio	\$168,159,700.23	12.31%
SFDCP Near Term Portfolio	\$9,160,803.58	0.67%
SFDCP Real Estate Portfolio	\$8,520,447.62	0.62%
SFDCP Small Cap Core Equity Portfolio	\$4,393,047.64	0.32%
SFDCP Small Cap Growth Equity Portfolio	\$23,398,680.87	1.71%
SFDCP Small Cap Value Equity Portfolio	\$39,182,406.14	2.87%
SFDCP Stable Value Portfolio	\$495,978,336.97	36.31%
Total Investment Funds at ING	\$1,365,911,214.76	100.00%
Total Annuity Assets at ING	\$1,834,213.96	
Total Annuity Assets at The Hartford	\$24,237,055.77	
TOTAL PLAN ASSETS	\$1,391,982,484.49	

Number of Plan Participants: 22,280
Number of Active Plan Participants: 14,253
Number of Retirees Not Receiving Benefits: 2,719
Retirees Receiving Benefits from Hartford: 500
Retirees Receiving Benefits from ING: 1,119
Total Retiree Assets: \$307,849,192.45

The Retirement Board reviewed the Investment Performance Analysis provided by Angeles Investment Advisors and appointed the Deferred Compensation Investment Review Committee to evaluate the core investment fund lineup. As a result of the review, the Deferred Compensation Investment Review Committee recommended to the full Retirement Board the addition of the SFDCP U.S. Real Estate Portfolio. The Board approved the recommendation and the SFDCP U.S. Real Estate Portfolio was added to the core investment fund lineup in February 2006. The Committee also reviewed structural changes for the SFDCP Stable Value Fund, and options for the underlying investments in the SFDCP Small Cap Value Equity Portfolio, SFDCP Mid Cap Value Equity Portfolio, and SFDCP Mid Cap Growth Equity Portfolio.

The provider for the Self-Direct Brokerage Account (SDBA), *Harrisdirect*, was purchased by E*Trade Financial. Subsequently E*Trade Financial announced that governmental retirement plans could not be added to their platform. Consequently, all SDBAs in the Deferred Compensation Plan were transferred to Ameritrade Corporate Services in March of 2006.

Changes To The Core Investment Lineup During The 2005-2006 Fiscal Year:

ADDITION OF CORE INVESTMENT FUND	
FUND NAME	UNDERLYING INVESTMENT
SFDCP U.S. Real Estate Portfolio	Morgan Stanley Institutional U.S. Real Estate Trust

Changes To The Self-Directed Brokerage Option During The 2005-2006 Fiscal Year:

SELF DIRECTED BROKERAGE ACCOUNT TRANSFER	
TRANSFER FROM	TRANSFER TO
<i>Harrisdirect (E*Trade)</i>	Ameritrade Corporate Services

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going education, plan enhancements, well performing investment funds, and a competitive fee structure.



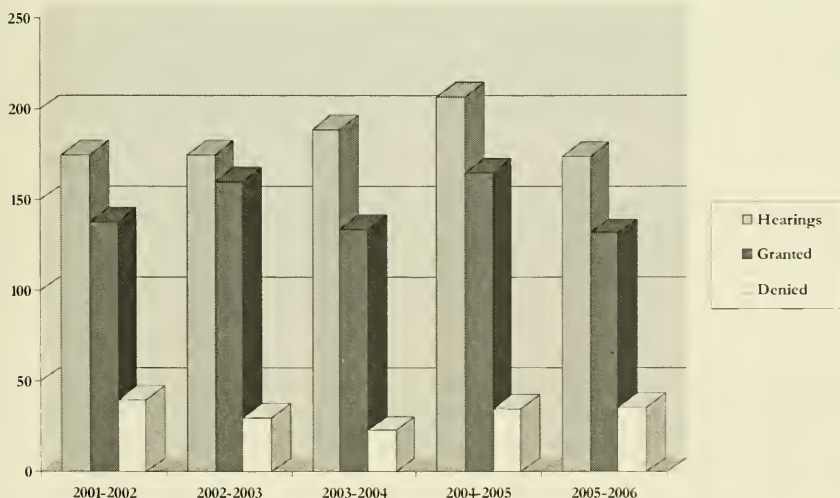
DISABILITY RETIREMENT

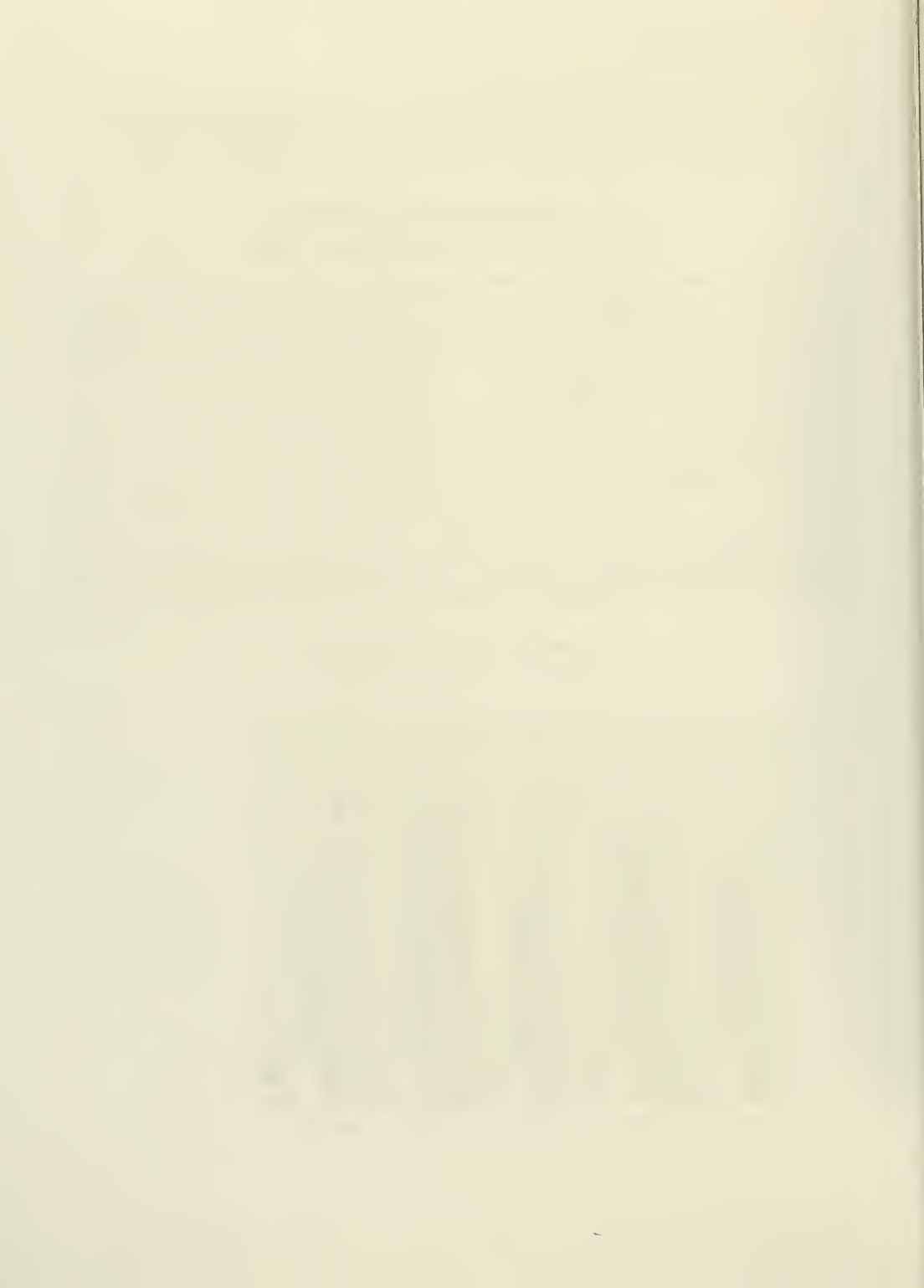
Ordinary and Industrial Disability applications and subsequent hearings before an Administrative Law Judge are processed by the Administration Division in consultation with the Workers Compensation Division of the Department of Human Resources. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2006.

HEARING OFFICER REPORT FISCAL YEAR ENDED JUNE 30, 2006

CASES	TOTAL NO. OF HEARINGS	TOTAL NO. GRANTED	TOTAL NO. DENIED
INDUSTRIAL DISABILITY RETIREMENTS	82	51	16
ORDINARY DISABILITY RETIREMENTS	78	67	8
DEATH BENEFITS	1	2	1
PETITIONS FOR REHEARING		2	9
PERS	13	10	2
REINSTATEMENTS	0	0	0
TOTAL	174	132	36

HEARING OFFICER REPORT FOUR-YEAR COMPARISON





INVESTMENT DIVISION

Dedicated to securing, protecting and prudently investing the pension trust assets

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. The Retirement System's goal, however, has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2006, approximately 19% of SFERS trust assets were managed internally, including \$852 million in domestic bonds and \$1.9 billion in domestic equities. The balance of the portfolio was managed externally by investment firms specializing in asset classes including global and domestic fixed income, international and domestic equities, real estate and alternative investments.

Investment Performance Highlights for Fiscal Year Ended June 30, 2006

For the Fiscal year ended June 30, 2006, the Investment portfolio of the Retirement System was a beneficiary of a rebound in economic and capital market growth, ending the fiscal year with a return of 13.46%. Equities (Domestic and International combined) continued double-digit growth, returning 15.62%. On a broad asset class basis, the stellar performers for the year were Alternative Investments, returning 39.6%, and Real Estate, returning 23.8%. Fixed Income returns were under pressure due to a rising interest rate environment, returning 2.11% for the year.

◆ **Equity**

Returns for the combined equity portfolio were 15.62%. The US equity portfolio return was 8.79%, underperforming the Russell 3000 benchmark return of 9.56% by 77 basis points. The International equity portfolio offset the modest returns of the domestic markets, returning 26.86%, underperforming the benchmark return of 27.90% by 1.04%.

◆ **Fixed Income**

Despite rising short-term interest rates the Fixed Income portfolio turned in a strong performance for the Fiscal Year. The Fixed Income asset class provided a 2.11% rate of return for the fiscal year ended June 30 (versus the benchmark Lehman Universal/Aggregate return of -0.23%). Domestic Fixed Income returns of 1.49% for the Fiscal Year were sound and exposure to Global Fixed Income securities enhanced the return significantly, providing a 3.59% rate of return for the Fiscal Year. Staff concentrated on investment manager guidelines and the more effective management of the Internal Fixed Income Portfolio.



◆ Alternative Investments

The one-year performance of SFERS' alternative investment portfolio was 39.6% at fiscal year-end 2006. Over a ten-year investment period, the alternative investment portfolio posted an 18.9% annualized return, exceeding the performance benchmark for the program (the S&P 500 plus 500 basis points over rolling ten-year periods) by 460 basis points.

During the Fiscal Year, Staff recommended, and the Retirement Board approved, investments with fifteen different management groups. Of these, five were new relationships, and 10 were investments with managers with whom SFERS has invested in the past.

◆ Real Estate

The real estate portfolio's return of 23.8% outperformed the benchmark target (PREA National Property Index (NPI) return plus 150 basis points) of 20.5% by 3.3% for the fiscal year ended June 30, 2006. For the three-year period, the portfolio return of 17.6% exceeded the benchmark return of 17.5%, while for the five-year period the portfolio return of 13.4% underperformed the NPI return of 13.7%.

During the Fiscal Year, the Retirement Board approved a target allocation of up to 12% of Real Estate investments in international assets. While the Retirement System has invested in European Funds historically, this allocation was extremely small relative to the total Real Estate portfolio. As of the fiscal year ended 2006, SFERS had approximately 8% of Real Estate assets invested and committed to international real estate investments.

INVESTMENT PORTFOLIO PERFORMANCE

ANNUALIZED RETURNS FOR THE PERIODS ENDING

6/30/2006

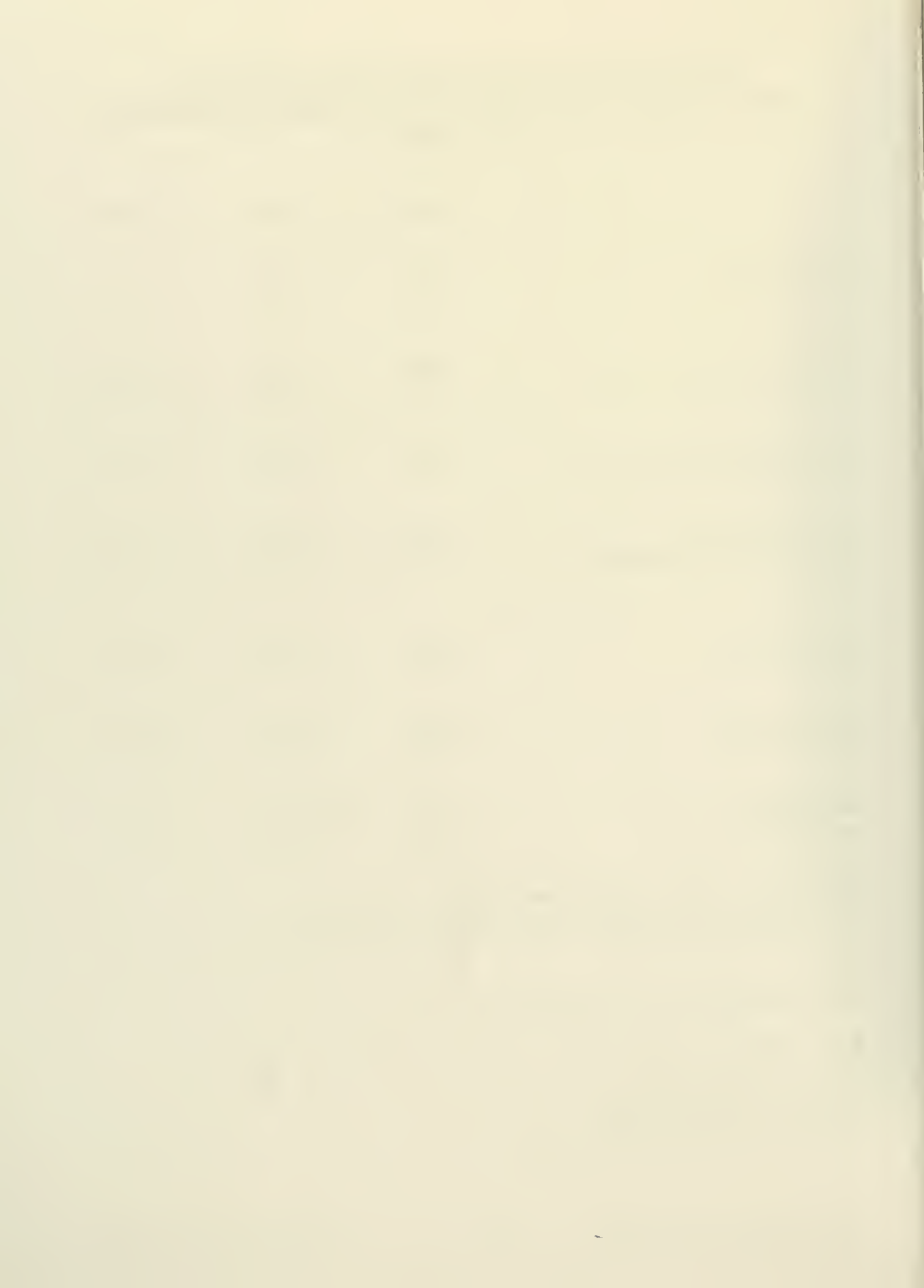
	One Year	3 Years	5 Years
Domestic Equity (benchmark: Russell 3000)	8.79 9.56	12.55 12.56	3.95 3.53
International Equity (benchmark: MSCI ACWI Free ex US)	26.86 27.90	26.10 25.29	11.60 11.43
Domestic Fixed Income (benchmark: Lehman Universal/Aggregate)	1.49% -0.26%	4.51% 2.67%	7.37% 5.39%
Global Fixed Income (benchmark: Lehman Global Aggregate/CG WGBI)	3.59% -0.07%	7.36% 2.71%	9.36% 4.69%
Real Estate (benchmark: NPI + 2%)	23.80% 20.50%	17.60% 17.50%	13.40% 13.70%
Alternative Assets (benchmark: S&P + 5%)	39.59% 13.63%	28.11% 16.22%	10.32% 8.49%
TOTAL Fund (weighted policy benchmark)	13.46 11.41	14.13 12.38	7.86 6.74

Source: Returns as calculated by The Northern Trust Company.

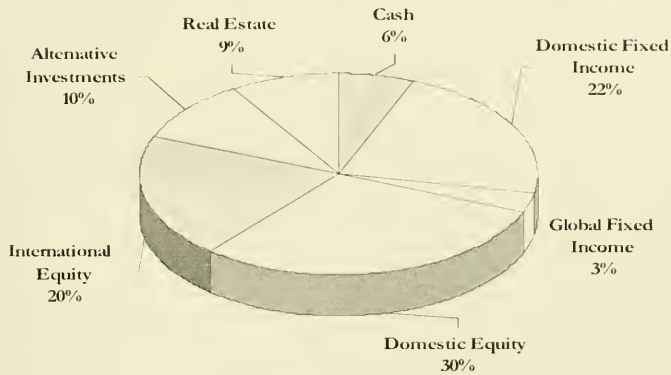
*Real Estate portfolio and benchmark returns are calculated by The Townsend Group,
SFERS Real Estate Consultant*

The following pages contain charts illustrating:

- ◆ Asset Allocation as of June 30, 2006
- ◆ SFERS Trust Fund Assets
- ◆ Investment Portfolio Performance
- ◆ Investment Earnings and Assets
- ◆ Portfolio Investment as of June 30, 2006



Asset Allocation as of June 30, 2006 - Market Value



PENSION FUND NET ASSETS





Portfolio Investment as of June 30, 2006

Category	Cost	% of Total	Market	% of Total
CASH & CASH EQUIVALENTS				
	\$ 909,526,579.38	6.99%	\$ 819,941,471.00	5.66%
EQUITIES				
Consumer Discretionary	\$ 396,132,350.76	3.05%	\$ 443,764,438.18	3.06%
Consumer Staples	149,774,945.89	1.15%	221,758,396.73	1.53%
Energy	173,670,686.44	1.34%	293,624,611.05	2.03%
Financials	625,510,595.67	4.81%	842,462,835.73	5.81%
Health Care	457,711,390.73	3.52%	524,740,124.84	3.62%
Industrials	294,682,048.08	2.27%	406,040,010.88	2.80%
Information Technology	616,025,751.35	4.74%	638,662,510.44	4.41%
Materials	65,644,258.86	0.50%	89,206,505.75	0.62%
Miscellaneous	215,122,974.42	1.65%	418,284,620.48	2.89%
Telecommunication Services	110,520,162.64	0.85%	108,962,000.96	0.75%
Utilities	84,474,668.83	0.65%	113,893,455.49	0.79%
Foreign Stock	2,616,038,666.13	20.11%	3,096,175,198.47	21.36%
Equities Total	\$ 5,805,308,499.80	44.63%	\$ 7,197,574,709.00	49.65%
FIXED INCOME				
Consumer Discretionary	\$ 56,274,294.80	0.43%	\$ 53,979,576.90	0.37%
Consumer Staples	12,515,809.15	0.10%	12,134,110.47	0.08%
Energy	40,947,133.17	0.31%	40,146,738.83	0.28%
Financials	797,100,441.76	6.13%	809,773,466.43	5.59%
Health Care	22,436,627.95	0.17%	21,993,795.22	0.15%
Industrials	9,429,748.37	0.07%	9,705,690.59	0.07%
Information Technology	6,992,863.17	0.05%	6,890,439.39	0.05%
Materials	10,445,623.74	0.08%	10,266,955.86	0.07%
Miscellaneous	908,849,374.72	6.99%	1,053,210,257.02	7.27%
Mortgages	125,585,802.23	0.97%	121,428,139.31	0.84%
Telecommunication Services	19,085,064.54	0.15%	12,436,315.38	0.09%
US Government	764,179,748.66	5.87%	792,091,054.71	5.46%
Utilities	26,291,905.85	0.20%	26,108,576.55	0.18%
Foreign government and corporate	606,972,717.30	4.67%	699,736,024.34	4.83%
Fixed Income Total	\$ 3,407,107,155.41	26.19%	\$ 3,669,901,141.00	25.31%
OTHER INVESTMENTS				
Real Estate	\$ 1,231,128,260.76	9.46%	\$ 1,316,852,291.00	9.08%
Venture Capital & Partnerships	1,655,436,365.63	12.73%	1,492,752,429.00	10.30%
Other Total	\$ 2,886,564,626.39	22.19%	\$ 2,809,604,720.00	19.38%
GRAND TOTAL	\$ 13,008,506,860.98	100.00%	\$ 14,497,022,041.00	100.00%



INVESTMENT EARNINGS AND ASSETS THREE YEAR HISTORY

Fiscal Year Ended June 30:	2006	2005	2004
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INVESTMENT EARNINGS

Equity Dividend Income	\$ 144,493,457	\$ 121,030,110	\$ 95,691,417
Real Estate Income	43,634,714	50,043,062	58,276,612
Alternative Investment Income	131,252,248	82,763,365	40,142,042
Realized Gains/(Loss)	1,138,492,694	561,435,485	649,859,830
Unrealized Gains/(Loss)	24,037,082	551,073,327	721,511,931
Interest	227,637,389	188,211,091	161,531,000
Other Income: Securities Lending, Dollar Roll and Recaptured Commissions	9,955,052	8,053,200	8,576,106
Total Investment Earnings	\$ 1,719,502,636	\$ 1,562,609,640	\$ 1,735,588,938

Fiscal Year Ended June 30:	2006	2005	2004
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PORTFOLIO ASSETS - SAIR VALUE

Fixed Income	\$ 3,669,901,141	\$ 3,629,226,794	\$ 3,381,353,573
Equities	7,197,574,709	6,425,337,310	5,947,900,326
Real Estate	1,316,852,291	1,084,785,351	958,368,355
Alternative Investments	1,492,752,429	1,436,795,576	1,311,960,487
Money Market Assets	819,941,471	559,117,965	307,606,100
Total Fair Value of Portfolio	\$ 14,497,022,041	\$ 13,135,262,996	\$ 11,907,188,841



RETIREMENT SERVICES DIVISION

Administering mandated benefit programs and providing promised benefits

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services provided include active and retired member counseling, member payroll accounting, calculation of benefits, establishment of pension payment, active and retired member recordkeeping, member communications and pre-retirement education.

SFERS PLAN MEMBERSHIP

The Retirement System administers three separate benefit plans for the City and County of San Francisco: the Firefighter Plan, the Police Plan and the Miscellaneous Plan. Each of these plans consists of multiple tiers. Generally, firefighter, police and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Firefighter, Police or Miscellaneous Plans respectively. Firefighters, police and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Police, Firefighter and Miscellaneous Plans respectively. Current Firefighter Plan and Police Plan benefits are established by Charter amendment passed in November 2002 and current New Plan Miscellaneous benefits are established by Charter amendment passed in November 2000.

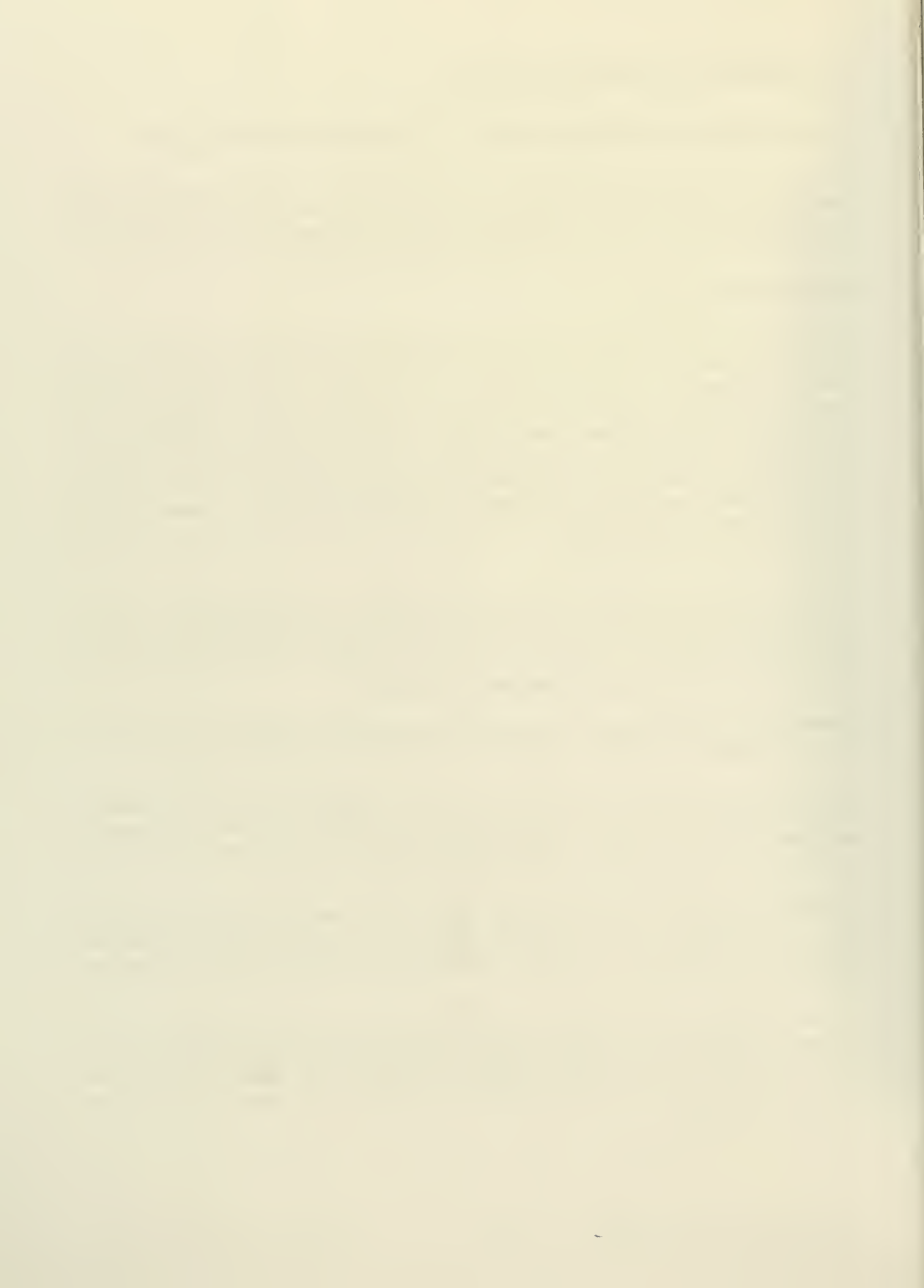
Miscellaneous Plan members are members of the Social Security System since September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

Employees in certain job classifications of the City and County of San Francisco may also be eligible for membership in other retirement systems (e.g., deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; school teachers are members of the State Teachers Retirement System).

On September 1, 1995, Retirement System membership rules were changed: employees who earn 1040 hours of compensation or more during any 12-month period became eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, Old Plan Firefighter and Old Plan Police members were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while New Plan Firefighter and New Plan Police members automatically became members of SFERS under San Francisco Charter Sections A8.598 and A8.596 under provisions of Proposition H passed by the voters in November 2002.



SFERS Plan Membership Charter References:

<u>Charter Section</u>	<u>Employee Group</u>
S.F. Charter Section A8-509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8-587	Miscellaneous employee who became members on or after November 2, 1976
S.F. Charter Section A8-559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Sections A8-559-14 and A8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8-595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585-14 and A8.588	Firefighters who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8-596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003



SFERS MEMBERSHIP

SFERS active membership falls within three categories:

- **Active Members** who are currently on City and County Payroll
- **Vested Members** who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
- **Reciprocal Members** who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2006, there were 29,209 members of the Miscellaneous Plans, 2,214 members of the Police Plans and 1,638 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP AS OF JUNE 30, 2006

PLAN MEMBERSHIP GROUP	NUMBER OF ACTIVE MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
OLD MISCELLANEOUS PLAN MEMBERS BEFORE NOVEMBER 2, 1976	893	19	8	920
NEW MISCELLANEOUS PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	24,812	2,769	708	28,289
OLD POLICE PLAN MEMBERS BEFORE NOVEMBER 2, 1976	73	0	0	2,141
NEW POLICE PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,046	87	8	2,141
OLD FIREFIGHTER PLAN MEMBERS BEFORE NOVEMBER 2, 1976	46	0	0	46
NEW FIREFIGHTER PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,556	26	10	1,592
TOTALS:	29,426	2,901	734	33,061

Miscellaneous Plan members comprise approximately 88.3% of the total SFERS Plan membership, with approximately 3% of the total Miscellaneous Plan members being employees who were hired before November 2, 1976.

Police officers and firefighters comprise approximately 6.7% and 5.0% of the total membership, respectively.



**EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL**

COVERED PLAN YEAR	POLICE	FIREFIGHTER	MISCELLANEOUS
1995-1996 (1 ST HALF)	14.79 ⁰ / ₁₀₀	12.44 ⁰ / ₁₀₀	4.98 ⁰ / ₁₀₀
1995-1996 (2 ND HALF)	12.69 ⁰ / ₁₀₀	10.58 ⁰ / ₁₀₀	4.29 ⁰ / ₁₀₀
1996-1997 (1 ST HALF)	0 ⁰ / ₁₀₀	0 ⁰ / ₁₀₀	1.83 ⁰ / ₁₀₀
1996-1997 (2 ND HALF)	0 ⁰ / ₁₀₀	0 ⁰ / ₁₀₀	0 ⁰ / ₁₀₀
1998-2004	0 ⁰ / ₁₀₀	0 ⁰ / ₁₀₀	0 ⁰ / ₁₀₀
2004-2005	4.48 ⁰ / ₁₀₀	4.48 ⁰ / ₁₀₀	4.48 ⁰ / ₁₀₀
2005-2006	6.58 ⁰ / ₁₀₀	6.58 ⁰ / ₁₀₀	6.58 ⁰ / ₁₀₀

Note: Rates of contribution are composite rates for Old and New groups.

**EMPLOYEE CONTRIBUTION RATES
AS A PERCENTAGE OF COVERED PAYROLL***

PLAN MEMBERSHIP GROUP	RATE OF CONTRIBUTION
MISCELLANEOUS (OLD)*	8.00%
MISCELLANEOUS (NEW)	8.00%
POLICE (OLD)	7.00%
POLICE (NEW)	7.50%
FIREFIGHTER (OLD)	7.00%
FIREFIGHTER (NEW)	7.50%

*Covered Payroll for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) is gross income. Covered Payroll for all other groups is gross income minus overtime compensation.



SFERS RETIREMENT SERVICES

The following table summarizes the major activities of the SFERS Retirement Services Division during Plan Years 2004-2005 and 2005-2006:

ACTIVITY	2004-2005	2005-2006
RETIREMENT APPOINTMENTS	1349	1691
RETIREMENT APPLICATIONS PROCESSED	1272	1150
BUYBACK APPOINTMENTS	1518	2006
PERSONNEL TRANSACTIONS:	1444	2166
NEW MEMBERS (NEW HIRES)	717	936
NEW MEMBERS (1040 HOURS MEMBERSHIP)	410	790
REHIRES	145	194
FIRE RECRUITS	717	96
POLICE RECRUITS	90	1150
SHERIFF RECRUITS	4	0
VISITORS	11,074	10,701
INCOMING CORRESPONDENCE	12,714	10,879
HOME VISITS	16	14
GROUP PRESENTATIONS	37	7
BENEFICIARY CHANGES	1330	1328
REFUND PACKETS	1425	1348
VERIFICATION OF PENSION OR BENEFIT DATA	884	967
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2810	2534
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2108	2216
PRE-RETIREMENT SEMINARS	6	6
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	640	544
MID-CAREER RETIREMENT PLANNING SEMINARS	2	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	210	242
NEW MEMBER RETIREMENT PLANNING SEMINARS	1	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	62	32

Retirement appointments increased 25.4% and retirement applications processed decreased 9.6% in Plan Year 2005-2006 over the prior Plan Year.

SFERS Retirement Services Division staff sponsored and conducted six pre-retirement seminars during Plan Year 2005-2006 that provided individualized benefit counseling for 544 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted two mid-career retirement planning seminars and one new member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Unified School District and the Community College District.

SFERS RETIREMENT STATISTICS FOR PLAN YEAR ENDED JUNE 30, 2006

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2005-2006, as well as benefits payment summaries and comparisons:

NEW RETIREMENTS EFFECTIVE DURING PLAN YEAR ENDED JUNE 30, 2006

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	664	235	N/A	29	928
FIREFIGHTER	69	1	8	0	78
POLICE	52	2	10	0	64
TOTALS:	* 785	238	18	29	1,070

*Total service retirements in Plan Year 2005-2006 includes 80 Early Retirement Program elections as well as applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

The total number of new retirements effective during Plan Year 2005-2006 was 18.7% higher than retirements in Plan Year 2004-2005 despite of the decrease in Early Retirement Program elections during the year. Service retirements represent 73.4% of the total of new retirements processed.

Miscellaneous retirements represented 86.7% of the total retirements processed in Plan Year 2005-2006, an increase from 89.5% in Plan Year 2004-2005.

Firefighter retirements represented 7.3% of the total retirements processed in Plan Year 2005-2006, an increase from 4.9% in Plan Year 2004-2005.

Police retirements represented 6.0% of the total retirements processed in Plan Year 2005-2006, an increase from 5.5% in Plan Year 2004-2005.



MISCELLANEOUS PLAN RETIREMENTS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
0-4	5	1	0	6	0.6%
5-9	14	125	0	139	15.0%
10-14	74	55	15	144	15.5%
15-19	79	50	10	139	15.0%
20-24	162	55	3	168	18.1%
25-29	136	1	1	138	14.9%
30-34	125	0	10	125	13.5%
35-39	65	0	0	65	7.0%
40 and above	4	10	10	4	0.4%
TOTAL	664	235	29	928	100.0%
PERCENT	71.6%	25.3%	3.1%	100.0%	

Approximately 64.2% of the total Miscellaneous Plan retirements had less than 25 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2005-2006 was 20.8 years.

Miscellaneous Plan service retirees were credited with an average of 24.7 years of service while those who retired for ordinary disability were credited with an average of 15.3 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	50	137	24	211	22.7%
55-59	179	56	5	240	25.9%
60-64	290	27	0	317	34.2%
65 AND OVER	145	15	0	160	17.2%
TOTAL	664	235	29	928	100.0%

The average age of all Miscellaneous Plan members who retired in Plan Year 2005-2006 was 59.3 years; the average age of Miscellaneous Plan members who retired for Service was 61.2 years; and the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.9 years.

POLICE AND FIREFIGHTER PLAN MEMBERS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY*	TOTAL	PERCENT OF TOTAL
0-4	0	0	2	2	1.4%
5-9	5	0	3	8	5.6%
10-14	2	1	3	6	4.2%
15-19	1	1	4	6	4.2%
20-24	9	1	1	11	7.8%
25-29	34	0	1	35	24.7%
30-34	66	0	3	69	48.6%
35 AND OVER	4	0	1	5	3.5%
TOTAL	121	3	18	142	100%
PERCENT	85.2%	2.1%	12.7%	100%	

* There were no Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2005-2006

Approximately 23.2% of the total Police and Firefighter Plan retirements had less than 25 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2005-2006 was 26.4 years.

Police and Firefighter Plan service retirees were credited with an average of 26.9 years of service while those who retired for industrial disability were credited with an average of 17.6 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	INDUSTRIAL DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	49	3	13	65	45.8%
55-59	57	0	5	62	43.7%
60-64	13	0	0	13	9.1%
65 AND OVER	2	0	0	2	1.4%
TOTAL	121	3	18	142	100.0%

The average age of all Police and Firefighter Plan members who retired in Plan Year 2005-2006 was 55.3 years.



TOTAL RETIREMENT ALLOWANCES AS OF JUNE 30, 2006

RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2006:				
MISCELLANEOUS	14,291	1,899	N/A	16,190
MEMBER	11,912	1,361	N/A	13,273
CONTINUATION	2,379	538	N/A	2,917
FIREFIGHTER	928	938	41	1,907
MEMBER	659	684	-	1,343
CONTINUATION	269	254	41	564
POLICE	1,269	770	49	2,088
MEMBER	950	493	-	1,443
CONTINUATION	319	277	49	645
TOTAL	16,488	3,607	90	20,185

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

As of June 30, 2006, the total number of retirement allowances paid to retired members represented 79.6% of the total allowances paid; continuation allowances represented 20.4% of the total allowances paid.

MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2006

RETIRED MEMBERS AND SURVIVOR CONTINUATION BENEFITS

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS*	DEATH IN LINE OF DUTY	TOTAL
MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2005:				
MISCELLANEOUS	\$ 28,070,120	\$ 2,763,659	N/A	\$ 30,833,779
FIREFIGHTER	4,956,048	4,488,807	\$ 129,318	9,574,173
POLICE	5,982,224	2,879,100	182,645	9,043,969
TOTAL	\$ 39,008,392	\$ 10,131,567	\$ 311,963	\$ 49,451,921

*Includes Ordinary Disability (Miscellaneous, Fire, and Police) and Industrial Disability (Fire and Police)

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 62.4% of the total monthly retirement allowances paid during Plan Year 2005-2006.

Monthly retirement allowances paid to service retirees represented 78.9% of the total monthly retirement allowances and monthly disability benefits represented 20.5% of the total monthly retirement allowances paid during Plan Year 2005-2006.

DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2005-2006	2004-2005	2003-2004
NUMBER OF DEATHS:			
ACTIVE MEMBERS	39	54	55
RETIRED MEMBERS	563	504	530
CONTINUANTS	212	205	191
TOTAL	814	763	776

The number of death notices received during Plan Year 2005-2006 increased by 6.7% from Plan Year 2004-2005.

WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
AS OF 6/30/2006				
MISCELLANEOUS	627		\$ 8,833,467	
FIREFIGHTER	0		0	
POLICE	7		70,432	
TOTAL	634	(6.6%)	\$ 8,903,899	4.5%
AS OF 6/30/2005				
MISCELLANEOUS	664		\$ 8,355,336	
FIREFIGHTER	0		0	
POLICE	15		167,039	
TOTAL	679	(4.1%)	\$ 8,522,375	11.3%
AS OF 6/30/2004				
MISCELLANEOUS	681		\$ 7,179,989	
FIREFIGHTER	2		42,737	
POLICE	25		435,118	
TOTAL	708	(15.4%)	\$ 7,657,844	(6.8%)



FISCAL DIVISION

Administering mandated benefit programs and providing promised benefits

The Fiscal Division is responsible for providing financial information to management for planning, control, and decision-making purposes. In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the Employees' Retirement System is adequately funded at all times. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system.

The Accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

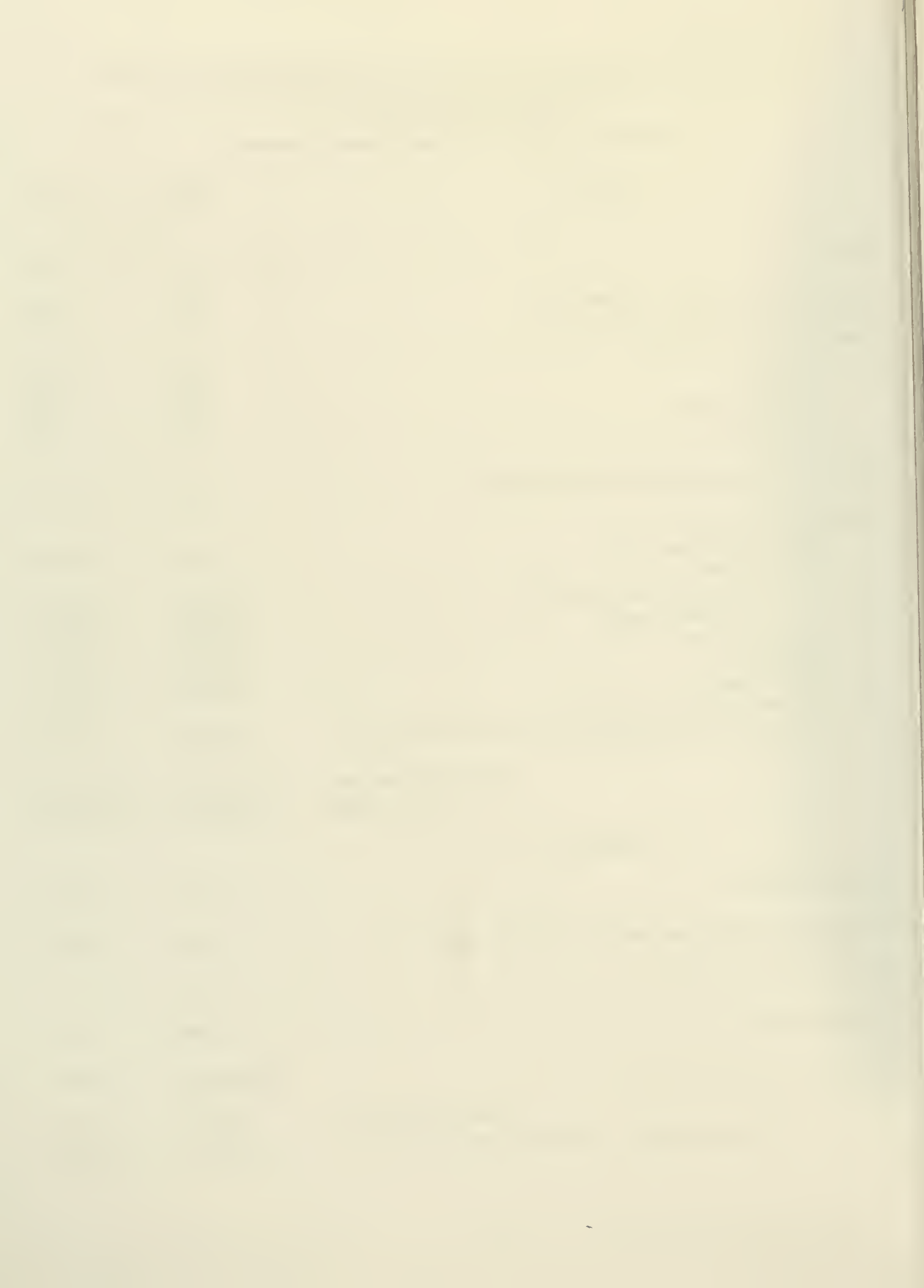
The following two pages present the **Statements of Net Plan Assets** and **Statements of Changes in Plan Net Assets** for Fiscal Years ended June 30, 2006 and 2005 as reported in SFERS' most recent audited financial statements. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2006. We encourage readers who may have questions regarding any of the financial information provided to request from SFERS the full set of audited *Financial Statements and Supplemental Schedules* as prepared by the City's independent auditors.



SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
JUNE 30, 2006 AND 2005

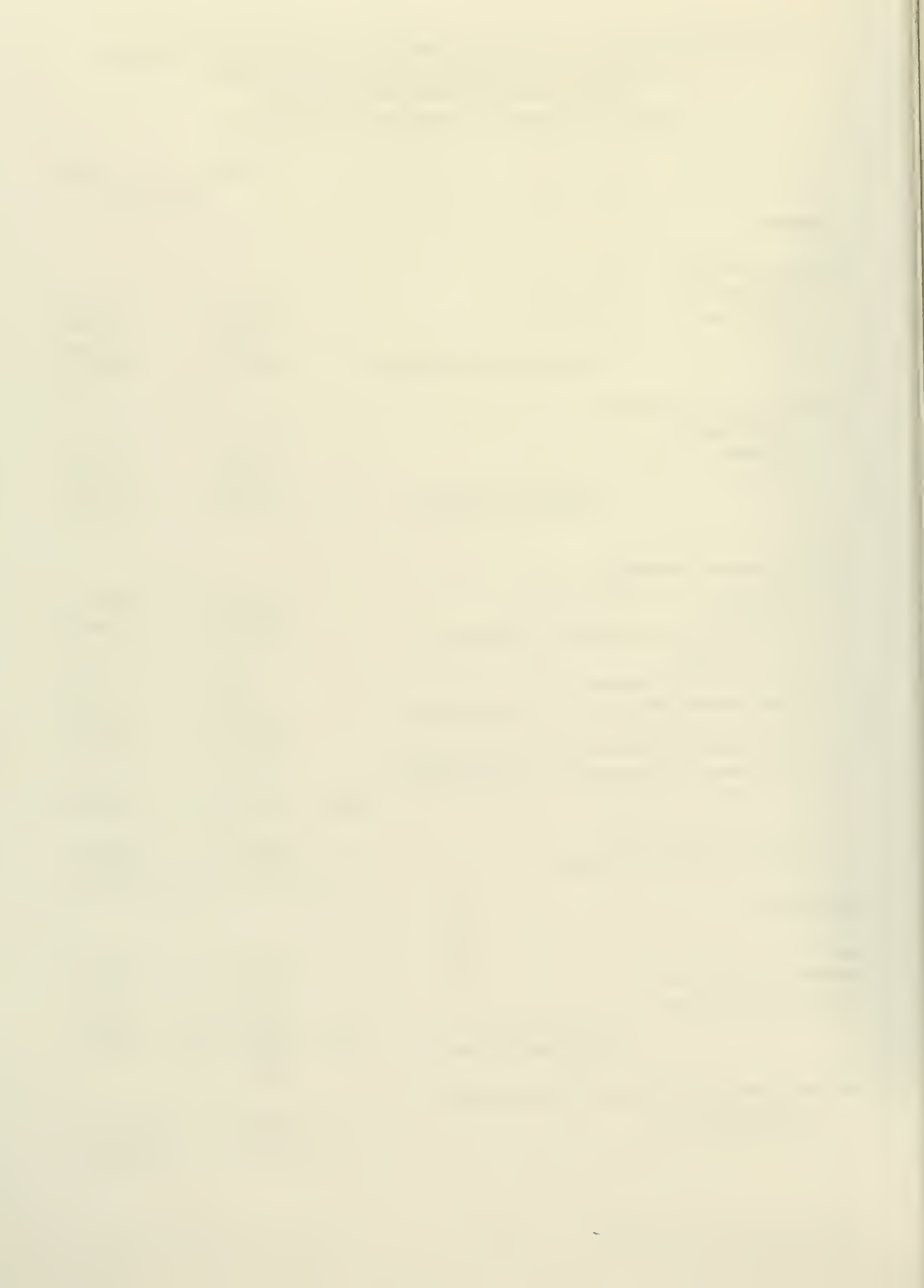
Information derived from audited Financial Statements

<u>ASSETS</u>	2006	2005
	(in thousands)	
Deposits	\$ 24,728	\$ 17,986
Contributions receivable – members	5,688	4,922
Contributions receivable – City and County	4,720	2,736
Investment income receivable:		
Interest	30,864	26,616
Dividends	8,662	8,096
Securities lending	1,048	1,579
Dollar Roll	424	201
Receivables from brokers, general partners, others	133,278	54,247
Investments at fair value		
Short-term bills and notes	943,168	622,621
Debt securities:		
U. S. government securities	1,151,023	1,372,895
Other debt securities	2,518,879	2,256,332
Equity securities	7,197,575	6,425,337
Real Estate	1,316,852	1,084,786
Venture capital	1,492,752	1,436,796
Forward currency contracts, net	0	13,254
Investments in lending agents' short term investment pool	<u>2,040,873</u>	<u>1,600,111</u>
TOTAL INVESTMENTS:	<u>\$ 16,661,122</u>	<u>\$ 14,812,132</u>
TOTAL ASSETS:	<u>\$ 16,870,534</u>	<u>\$ 14,928,515</u>
 <u>LIABILITIES</u>		
Payable to brokers	\$ 209,424	\$ 98,585
Obligations under fixed coupon dollar repurchase agreements	99,141	85,000
Foreign Currency Contracts, net	12,825	-
Other liabilities	11,250	9,556
Payable to borrowers of securities	<u>2,040,873</u>	<u>1,600,111</u>
TOTAL LIABILITIES:	<u>2,373,512</u>	<u>1,793,252</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	<u>\$ 14,497,022</u>	<u>\$ 13,135,263</u>



SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
YEARS ENDED JUNE 30, 2006 AND 2005
Information derived from audited Financial Statements

	2006	2005
	(in thousands)	
ADDITIONS		
Member contributions:		
Miscellaneous	\$ 136,665	\$ 139,442
Firefighter	14,715	14,233
Police	11,313	10,690
Total Member Contributions	162,693	164,365
City and County contributions:		
Miscellaneous	104,064	69,123
Firefighter	12,773	8,356
Police	9,696	6,185
Total City Contributions	126,533	83,664
Investment income (expenses)		
Interest	227,637	188,854
Dividends	144,493	121,030
Net (depreciation) appreciation in fair value of investments	1,337,830	1,245,926
Securities lending income	77,358	34,183
Fixed coupon dollar repurchase agreement income	5,467	4,923
Investment expenses	(40,785)	(28,228)
Securities lending borrower rebates and expenses	(67,909)	(27,135)
Fixed coupon dollar repurchase agreement finance charges and expenses	(5,372)	(4,556)
Investment gain/(loss), net	1,678,719	1,534,997
Total additions/(deductions)	\$ 1,967,945	\$ 1,783,026
DEDUCTIONS		
Benefits	586,245	535,963
Refunds of contributions	8,719	8,565
Administrative expenses	11,222	10,593
Total Deductions	\$ 606,186	\$ 555,121
Net increase/(decrease)	\$ 1,361,759	\$ 1,227,905
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	\$ 13,135,263	\$ 11,907,358
End of year	\$ 14,497,022	\$ 13,135,263



The following pages contain comparative fiscal year reports related to SFERS income and disbursements for the 3-year from July 1, 2003 through June 30, 2006, including:

- Employer and Employee Contributions
- Investment Income
- Benefit Disbursements
- Administrative Expenses

SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

Employer (City and County) Contributions

Up until Plan Year 2004-2005, the City and County of San Francisco had not been required to make employer contributions since 1996 due to the funding status of the Plan.

MEMBER PLAN	PLAN YEAR 2005-2006	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004
MISCELLANEOUS PLAN	\$ 104,064,428	\$ 69,122,769	\$ -
FIREFIGHTER PLAN	9,696,305	6,184,668	-
POLICE PLAN	12,772,942	8,355,929	-
TOTAL	\$ 126,533,675	\$ 83,663,366	\$ -

Employee Contributions

MEMBER PLAN	PLAN YEAR 2005-2006	PLAN YEAR 2004-2005	PLAN YEAR 2003-2004
MISCELLANEOUS PLAN	\$ 136,664,886	\$ 139,442,651	\$ 144,973,403
FIREFIGHTER PLAN	11,313,204	10,689,574	11,778,242
POLICE PLAN	14,715,115	14,232,985	13,798,516
TOTAL	\$ 162,693,205	\$ 164,365,210	\$ 170,550,161

SFERS PENSION FUND INVESTMENT INCOME
PLAN YEAR 2005-2006

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
CITY AND COUNTY CONTRIBUTIONS			\$ 126,533,675
EMPLOYEE CONTRIBUTIONS			162,693,205
INTEREST EARNED			227,637,389
DIVIDENDS EARNED			144,493,457
SECURITIES LENDING INCOME-NET			9,448,736
DOLLAR ROLL INCOME – CET			93,876
RECAPTURED COMMISSION INCOME – CET			19,529
REAL ESTATE INCOME			43,634,714
ALTERNATIVE INVESTMENT INCOME			131,252,247
INVESTMENT EXPENSES			(40,391,764)
TOTAL INCOME:			\$ 805,415,064
NET APPRECIATION IN FAIR VALUES			
SHORT-TERM SECURITIES	\$ 1,910,856	\$ (25,949,176)	\$ (24,038,320)
EQUITIES	904,748,928	(39,193,688)	865,555,240
DEBT SECURITIES	(504,551)	(123,010,974)	(123,515,525)
REAL ESTATE	52,790,106	122,936,974	175,727,080
VENTURE CAPITAL	180,324,199	90,618,084	270,942,283
OTHER ASSETS	(776,844)	(1,363,196)	(2,140,040)
TOTAL NET APPRECIATION:	\$ 1,138,492,694	\$ 24,038,024	\$ 1,162,530,718
TOTAL INCOME AND NET APPRECIATION:			\$ 1,967,945,782
INCREASE/(DECREASE) FROM FY 2004–2005:			\$ 184,874,005

SFERS PENSION FUND DISBURSEMENTS
PLAN YEAR 2005-2006

PAYMENTS/EXPENSES	AMOUNT
SERVICE RETIREMENT PAYMENTS	\$ 431,915,446
DISABILITY RETIREMENT PAYMENTS	114,348,171
PROPOSITION C – COST OF LIVING ADJUSTMENT	29,405,182
DEATH ALLOWANCE PAYMENTS	4,057,525
DEATH BENEFITS	2,253,084
NORMAL CONTRIBUTIONS PAID AS DEATH BENEFIT	2,972,345
RETIRED ANNUITANT ROLLS (OPTION 1 DEATH BENEFIT)	1,293,665
REFUNDS OF CONTRIBUTIONS	8,719,016
ADMINISTRATIVE EXPENSES: RETIREMENT SERVICES/ADMINISTRATION	11,221,361
TOTAL PAYMENTS & EXPENSES:	\$ 606,185,795
INCREASE/(DECREASE) FROM FY 2004-2005:	\$ 51,065,425

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
RETIREMENT SERVICES/ADMINISTRATION DIVISIONS**

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2005-2006	2004-2005	2003-2004
PERSONNEL SERVICES	\$ 5,149,655	\$ 4,790,890	\$ 4,386,050
EQUIPMENT PURCHASE	29,023	49,742	77,999
MATERIALS AND SUPPLIES	146,280	153,149	132,526
SERVICES OF OTHER DEPARTMENTS	3,956,423	4,092,215	4,795,078
OTHER SERVICES	1,939,980	1,507,484	1,318,664
TOTAL	\$ 11,221,361	\$ 10,593,480	\$ 10,710,317

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
INVESTMENT DIVISION**

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2005-2006	2004-2005	2003-2004
PERSONNEL SERVICES	\$ 1,533,095	\$ 1,659,436	\$ 1,429,766
EQUIPMENT PURCHASE	6,622	33,227	0
MATERIALS AND SUPPLIES	6,032	6,125	12,314
SERVICES OF OTHER DEPARTMENTS	408,353	401,532	287,425
OTHER SERVICES	35,499,830	25,074,914	22,581,091
TOTAL	\$ 37,453,932	\$ 27,175,234	\$ 24,310,596

**SFERS ADMINISTRATIVE EXPENDITURES
3 YEAR COMPARISON
ALL DIVISIONS**

ALL DIVISIONS	2005-2006	2004-2005	2003-2004
GRAND TOTAL	\$ 48,675,293	\$ 37,768,714	\$ 35,020,913



ACTUARIAL SUMMARY

The Retirement System pays an array of benefits to members and their survivors -- service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2005 data. The results were first published in February 2006.

ASSUMPTIONS AND METHOD

The main assumptions used to measure the System's liabilities for future benefits payments were:

Investment Returns	8.00% per year
Base Wage Increases	4.50% per year
Merit and Promotion	Wage Increases 1.3%, approximately (varies by group and years of service)
Retiree Mortality	1994 Group Annuity Mortality Table

The actuarial funding method used was as follows:

- ◆ entry age normal cost method
- ◆ unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- ◆ unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.



KEY RESULTS

Using the method and assumptions detailed above, the key findings of the latest valuation were:

Funded Status

Actuarial Liability	11,765,737,000
Actuarial Value of Assets	<u>12,659,698,000</u>
Unfunded Liability <Surplus>	\$ <893,961,000>

Funded Status (assets / liabilities)	108%
---	------

Employer (City and County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2006-2007 were derived from the following actuarial valuation results:

NORMAL COST	16.56%
UNFUNDED LIABILITY & OTHER COSTS	(2.80)%
EMPLOYEE CONTRIBUTIONS	7.52%
CITY CONTRIBUTION RATE	6.24%
BOARD APPROVED CITY CONTRIBUTION RATE	6.24%





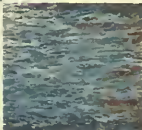
City and County of San Francisco



EMPLOYEES' RETIREMENT SYSTEM

ANNUAL REPORT

for Fiscal Year Ended June 30, 2007



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**ANNUAL REPORT
FOR FISCAL YEAR ENDED JUNE 30, 2007**

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A MESSAGE FROM THE PRESIDENT

INVESTING ASSETS • PROVIDING BENEFITS • SERVING MEMBERS

On behalf of the San Francisco Employees' Retirement System (SFERS) Board and staff, I am pleased to present the Annual Report for Fiscal Year 2006-07.

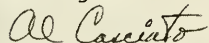
The SFERS' Retirement Board and the staff work diligently to provide the highest quality service and benefits to our more than 30,000 active and 20,000 retired members and their survivors, in the most cost-effective manner.

As I reflect on this fiscal year, it is rewarding to me that I am able to acknowledge the many accomplishments achieved by the Board and staff, in our continuous efforts to ensure each member's experience with the Retirement System is a valuable one. Below is a list of the key accomplishments achieved during the year.

- The SFERS was named Large Plan of the Year by Money Management Letter.
- The investment portfolio returned 18.71%, outperforming the policy benchmark by 71 basis points (0.71%). The investment portfolio grew \$2.4 billion over the fiscal year from \$14.5 billion at June 30, 2006 to \$16.9 billion at June 30, 2007. Consequently, our pension portfolio continues to be fully funded at 109%—one of the highest funded ratios in the country for a public pension fund. And, once again, our exceptional performance will allow the SFERS to pay retirees the 3% voter approved supplemental COLA for Fiscal Year 2006-07.
- A revised Investment Policy Statement (IPS) was approved by the Board to reflect recently amended sub asset class targets and ranges and a new policy overview for opportunistic strategies allocations within the US equity, international equity and fixed income asset classes. The revised IPS reflects our commitment to maintain a diversified portfolio so as to maximize investment returns, minimize contributions, and provide benefits to participants and their beneficiaries.
- Modifications to the San Francisco 457(b) Deferred Compensation Plan Investment Policy Statement were approved by the Board. Much like the pension portfolio IPS, the modified Deferred Compensation Plan IPS provides for enhanced investment options within the Plan and provides for investment advice to aid participants in making prudent decisions when investing for retirement.
- The Board continues to seek out opportunities for education in the area of governance, aimed at improving the overall administration of the SFERS. Board members participated in a variety of educational opportunities such as presentations on conflict of interest issues; seminars about investment opportunities, risk management programs, and fiscal compliance and reporting; and conferences related to pension fund management and oversight.

We have enjoyed a very successful year and we look forward to even greater accomplishments for next year. On behalf of the Retirement Board, I would like to thank our staff for their tireless work and commitment, and the members for their unwavering confidence and trust.

Best Regards,



Al Casciato, President

Retirement Board, City and County of San Francisco

THE RETIREMENT SYSTEM

The San Francisco Employees' Retirement System (SFERS) was created by the voters as a part of the San Francisco City Charter established in the late 1880's. The current Retirement System structure was established in the 1932 San Francisco City Charter. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan.
- San Francisco Deferred Compensation Plan, an IRS §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans (see "SFERS Plan Descriptions" on page 33).

OUR MISSION

The San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits

THE PENSION PLAN

The SFERS Pension Plan is a qualified defined benefit plan that provides three opportunities for retirement: vesting retirement, service retirement, and disability retirement (to its Miscellaneous and Safety (Firefighter and Police) members), and pre- and post-retirement death benefits to their beneficiaries.

The SFERS has reciprocity with CalPERS, CalSTRS, the county retirement systems subject to the 1937 Act Retirement Law, and other local, independent retirement systems that have a reciprocity contract with CalPERS (listed in the CalPERS Annual Financial Report).

THE 457(b) PLAN

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan adopted in 1979, provides participants a method of deferring from current taxation part of their salary during employment for distribution after retirement or upon separation from service.

THE RETIREMENT BOARD

The Retirement Board of the San Francisco Employees' Retirement System oversees Plan administration, pension fund investment, member benefits, and actuarial funding. Within the scope of their duties, the Board establishes policies governing the administration, management, and operation of the retirement plans; manages the investment of the Retirement System's assets; reviews and approves benefit determinations; and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan. A full description of Board duties is available in the Board Policy Manual. The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business.

THE RETIREMENT BOARD

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

2006-07 Retirement Board members and their term expiration dates

Board President
Al Casciato,
Captain, Police Department

Elected Member
February 2010

Board Vice President
Michael Kim
Partner
Rustic Canyon Partners

Appointed Member
February 2009

Joseph D. Driscoll, C.F.A.
Captain, Fire Department

Elected Member
February 2011

E. David Ellington
Entrepreneur/Attorney

Appointed Member
February 2009

Sean Elsbernd
Member, Board of Supervisors

Ex-Officio Member
January 2008

Herb Meiberger, C.F.A.
Retiree

Elected Member
February 2012

Brenda Wright
Senior Vice President
Regional Manager Community Development
Wells Fargo & Company

Appointed Member
February 2008

2006 - 07 San Francisco Employees' Retirement System Fiscal Year in Review

We are pleased to report the San Francisco Employees' Retirement System accomplished a number of objectives in several key areas during the fiscal year. Consequently, the pension trust remains healthy and fully funded.

PLAN ASSETS

Plan assets grew by \$2.4 billion over the fiscal year from \$14.5 billion at June 30, 2006 to \$16.9 at June 30, 2007. Employee and employer contributions to the Plan accounted for \$308.3 million of net revenues while investment income accounted for \$2.8 billion. A total of \$650.2 million was disbursed from the Plan in benefits payments and expenses.

MEMBER SERVICES

The SFERS takes great pride in providing first-rate services to our more than 50,000 active and retired members and their survivors. In fiscal year 2006-07, we offered four Pre-Retirement Seminars for members planning to retire within five years, two Mid-Career Seminars for members planning to retire within ten years, and one New Member Retirement Seminar for members with less than five years of credited service. Our goal is to provide information and education to help facilitate understanding of available retirement benefits, and to provide members ample time to prepare for retirement.

ACTUARIAL

A number of actuarial matters were addressed during the fiscal year, most notably, the introduction of the new Consulting Actuary team from Towers Perrin. The Consulting Team presented material to the Board describing the actuarial valuation process, and detailing the implementation of recommendations resulting from the actuarial audit which had been commissioned during the prior fiscal year.

Our pension portfolio continues to be fully funded at 109%—one of the highest funded ratios in the country for a public pension fund. Strong performance contributed to the SFERS ability to pay retirees the 3% voter approved supplemental COLA for Fiscal Year 2006-07. Also, the Retirement Board reviewed and approved the position description for the Actuarial Services Coordinator.

Additionally, the Retirement Board reviewed and approved the following actions:

- Actuarial Services Coordinator position (actively being recruited)
- Supplemental COLA Report
- Economic Experience Analysis and Adoption of Economic Assumptions
- Adjustment to Balance Sheet Amounts Regarding GASB 27
- Credited Interest Rate for July 1, 2007
- Adoption of Actuarial Valuation as of June 30, 2006
- Adoption of Employer Contribution Rates Effective July 1, 2007
- Approval of Cost of Living Adjustment (COLA) for Retirees Subject to Charter Section A8.526

INVESTMENTS

The investment portfolio returned 18.71%, outperforming the policy benchmark by 71 basis points (0.71%). The investment portfolio grew \$2.4 billion over the fiscal year from \$14.5 billion at June 30, 2006 to \$16.9 billion at June 30, 2007.

The Retirement Board adopted several new/revised investment policies so as to ensure the health of the investment portfolio, and with the goal of providing benefits to members into perpetuity:

- Revised Asset Allocation
- Amended Sub Asset Class Targets and Ranges
- Revised Investment Policy Statement
- Policy Overview for Opportunistic Strategies
- Strategic Investment Plan for Alternative Investment Program
- Calendar Year 2007 Annual Investment Plan for Alternative Investment Program
- Proxy Voting Guidelines for 2007
- Real Estate Strategic Investment Plan
- Fiscal Year 2007-08 Annual Investment Plan for Real Estate
- Procedures Related to Investments in Corporations Conducting Business in Sudan under Level III of its Social Investment Policy, adopting a list of 28 companies to be divested and prohibited from future investment

Additionally, under the authorization of the Retirement Board, and in accordance with the annual investment plan, the Investment team made the following commitments in alternative investments, real estate and equities, aimed at enhancing the structure and diversity of the portfolio, and improving long-term performance. See page 25 for a detailed schedule of these investments:

- \$535 million invested in alternative investments
- \$100 million invested in real estate
- \$25 million invested in special situation funds within equities

Furthermore, during the fiscal year the Board authorized issuance of Requests for Proposals (RFPs) for a General Consultant (approving continued retention of Angeles Investment Advisors as General Consultant for the Fund), and a Proxy Service provider (retaining the services of Institutional Shareholder Services).

Education

The Retirement Board strives to improve competency and enhance understanding of pension investments through education. During the fiscal year, members of the Board participated in the following educational opportunities:

- Global and Core Plus Fixed Income (the prior classifications of Domestic and Global Fixed Income were combined into a single category of Core Plus Fixed Income). This resulted in the issuance of a Request for Proposal and the selection of four Core Plus managers.
- Risk management. This resulted in the adoption of a preliminary framework for managing, monitoring and reporting on different types of risk within the investment program of the Trust Fund.
- Global Real Estate Securities. A Request for Proposal to secure Global Real Estate managers will be issued during the 2007-08 Fiscal year.
- Enhanced Index investments. A Request for Proposal to secure Enhanced Index managers will be issued during the 2007-08 Fiscal year.

GOVERNANCE

In accordance with Board policies, the Board oversees routine governance matters. For fiscal year 2006-07, the Board reviewed and/or approved the following matters, essential to SFERS operations:

- Semi-Annual Business Plan Implementation Report
- Semi-Annual Review of the Disability Application Process
- Business Plan for 2007-08, Including Communications Plan
- 2006-07 SFERS Budget
- Review and Approval of the Board Governance Manual:
 1. Deferred Compensation Plan Committee Terms of Reference
 2. Finance Committee Terms of Reference
 3. Governance Committee Terms of Reference
 4. Investment Committee Terms of Reference
 5. Personnel Committee Charter Terms of Reference

LITIGATION/LEGISLATION

The SFERS Administration and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes that could impact the SFERS such as:

- SFERS upheld in final appeal of the Veterans Police Officers Association Class Action Lawsuit
- The Pension Protection Act of 2006
- Legislation introduced at the Federal and State level that could lead to divestment from firms conducting business in the Islamic Republic of Iran
- Two bills related to Sudan divestment by California State pension plans signed by the Governor
- A new commission to review public pensions and health benefits established by the Governor

Current Year Business Plan Initiatives

Successful management of SFERS is contingent upon strategic planning and execution of internal business processes. The SFERS Senior Administration work diligently to employ systemic controls that allow for transparent operations. In fiscal year 2006-07, the SFERS Administration implemented the following initiatives:

- Business Resumption/Disaster Recovery Planning
- Imaging projects IDOC and ADOC
- Successful Implementation of a new accounting general ledger application
- Investment risk management project
- Replacement of automated telephone system
- Phase III of the Pension Administration System

In addition, the Administration team implemented the following Policy Amendments:

- Board Travel Policy
- Board Communications Policy
- Business Planning Policy
- Executive Director Performance Evaluation Policy
- Monitoring & Reporting Policy
- Service Provider Selection Policy
- Policy Regarding Qualification for Dependent Adult Child or Dependent Parent Continuation Benefits

- Board Development Process
- Retirement Board Terms of Reference
- Vice President Terms of Reference
- Executive Director Terms of Reference

DEFERRED COMPENSATION PLAN

The SFERS offers active members an opportunity to acquire additional retirement savings intended to supplement pension benefits with voluntary contributions to a Deferred Compensation 457(b) Plan. The 457(b) Plan is managed by the Deferred Compensation Manager who continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement. Accordingly, the staff submits scheduled reports to the Board (a Semi-Annual Investment Performance Analysis, provided by Angeles Investment Advisors and an Annual Plan Review; provided by ING Life Insurance and Annuity Company) regarding the performance and administration of the 457(b) Deferred Compensation Plan.

Additionally, the Board adopted a number of policy and Plan amendments as recommended by staff and consultants, for the purpose of improving performance and administration of the 457(b) Deferred Compensation Plan:

- Modifications to the San Francisco 457(b) Deferred Compensation Plan Investment Policy Statement;
- Modifications to the investment structure of the San Francisco 457(b) Deferred Compensation Plan Stable Value Fund;
- Amendments to the 457(b) Deferred Compensation Plan Document;
- Amendments to the 457(b) Deferred Compensation Plan Unforeseeable Emergency Withdrawal Policy
- Change of the underlying investment option of the SFDCP Stable Value Fund, SFDCP Mid Cap Value Equity Portfolio, SFDCP Mid Cap Growth Equity Portfolio, and SFDCP Small Cap Value Equity Portfolio.

Furthermore, the Board reviewed and approved a RFP to secure a Consultant for the purpose of evaluating the City and County of San Francisco 457(b) Deferred Compensation Plan Structure in preparation of the RFP for plan administration in 2008.

SFERS ADMINISTRATION

Administering mandated benefit programs and providing promised benefits

The Administration Division manages the daily activities of the SFERS and oversees all other Divisions in the Department – Investments, Operations, Member Services, Human Resources and Fiscal Divisions. The Administration Division provides administrative support to the Retirement Board in the preparation of agendas, minutes and public notice requirements for the Board's meetings and committee meetings. Administrative staff interfaces with Board members in travel requests, orientation of new Board members, and facilitates on-going educational opportunities for Board members.

SENIOR ADMINISTRATIVE STAFF

Administration:

Clare M. Murphy	Executive Director
Jay Huish	Deputy Director
Carol Cypert, CRA, CRC	Deferred Compensation Manager
Norm Nickens	Executive Assistant
Alison Johnson	Communications Manager

Investments:

David Kushner, CFA	Deputy Director for Investments
William Coaker, MBA, CFP, CIMA, CFA	Senior Investment Officer, Equities
Donald Holcher	Senior Investment Officer, Real Estate
Richard Piket	Senior Investment Officer, Fixed Income
Glen Schwartz	Senior Investment Officer, Alternative Investments

Retirement Services:

Maria Newport	Retirement Administrator
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Fiscal:

Jim Burruel	Finance Manager
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Actuary:

Clare M. Murphy	Acting Actuary
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In addition to overseeing Retirement System activities and supporting the Retirement Board, the Administration Division administers the following services.

PUBLIC RECORDS REQUESTS

Public Records Requests are managed and administered by the Administration Division in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

DISABILITY RETIREMENT APPLICATIONS

Applications for disability retirement, and subsequent hearings before an Administrative Law Judge, are processed by the Administration Division in consultation with the Workers Compensation Division of the Department of Human Resources.

ACTUARIAL SERVICES

The SFERS Retirement Board appoints an Actuary and a Consulting Actuary to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs, and in reporting actuarial information related to the benefit structure and funding of the Retirement System. In fiscal year 2006-07, the Retirement Board created a new Actuarial Services Coordinator position to oversee the SFERS actuarial activities. Until the position of Actuarial Services Coordinator is filled, the Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary.

ACTUARIAL SUMMARY

The Retirement System pays an array of benefits to members and their survivors—service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. The Plan valuation at the beginning of the Fiscal Year was carried out by the actuarial consulting firm of Towers Perrin based on June 30, 2006 data. The results were first published in February 2007.

ASSUMPTIONS AND METHOD

The main assumptions used to measure the System's liabilities for future benefits payments were:

Investment Yield	8.00% per year
Wage Inflation	4.50% per year
Price Inflation	3.50% per year
Retiree Mortality	1994 Group Annuity Mortality Table

The actuarial funding method used was as follows:

- entry age normal cost method
- unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of realized and unrealized capital gains and losses.

KEY RESULTS

Using the method and assumptions detailed above, the key findings of the latest valuation were:

FUNDED STATUS

Actuarial Liability	12,515,463,000
Actuarial Value of Assets	<u>13,597,646,000</u>
Unfunded Liability <Surplus>	\$<1,082,183,000>
Funded Status (assets / liabilities)	109%

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates to be paid by the City in Fiscal Year 2007-08 were derived from the following actuarial valuation results:

NORMAL COST	16.60%
AMORTIZATION OF PLAN SURPLUS	(3.18)%
EMPLOYEE CONTRIBUTIONS	7.51%
CITY CONTRIBUTION RATE	5.91%
<hr/>	
BOARD APPROVED CITY CONTRIBUTION RATE	5.91%

SAN FRANCISCO 457(B) DEFERRED COMPENSATION PLAN

The 457(b) Deferred Compensation Plan, adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The Plan offers a diverse selection of 19 core investment funds including access to a self-directed brokerage option. During the past year the 457(b) Deferred Compensation Plan grew in assets and in number of participants.

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator, currently ING Life Insurance and Annuity Company. The Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposal, SFDCP News, and review of investment fund assessments.

The table on page 13 provides detailed information related to the City's 457(b) Deferred Compensation Plan for Fiscal Year 2006-07.

457(B) DEFERRED COMPENSATION PLAN

Values as of 06/30/07

FUND NAME	TOTAL ASSETS	PERCENT OF TOTAL ASSETS
AMERITRADE - SELF DIRECTED BROKERAGE ACCOUNT	\$10,243,989.72	0.63%
SFDCP CORE BOND PORTFOLIO	\$37,740,676.33	2.33%
SFDCP INTERNATIONAL EQUITY PORTFOLIO	\$142,467,154.44	8.80%
SFDCP LARGE CAP CORE EQUITY - ACTIVE PORTFOLIO	\$20,009,891.00	1.24%
SFDCP LARGE CAP CORE EQUITY - S&P 500 INDEX	\$100,117,528.40	6.19%
SFDCP LARGE CAP GROWTH EQUITY PORTFOLIO	\$282,086,498.35	17.43%
SFDCP LARGE CAP SOCIAL EQUITY PORTFOLIO	\$6,927,574.63	0.43%
SFDCP LARGE CAP VALUE EQUITY PORTFOLIO	\$29,138,819.29	1.80%
SFDCP LONG TERM PORTFOLIO	\$63,315,086.48	3.91%
SFDCP MID CAP CORE EQUITY PORTFOLIO	\$44,066,106.77	2.72%
SFDCP MID CAP GROWTH EQUITY PORTFOLIO	\$7,204,302.11	0.45%
SFDCP MID CAP VALUE EQUITY PORTFOLIO	\$23,978,920.65	1.48%
SFDCP MID TERM PORTFOLIO	\$206,435,710.43	12.76%
SFDCP NEAR TERM PORTFOLIO	\$10,684,635.61	0.66%
SFDCP REAL ESTATE PORTFOLIO	\$20,950,313.15	1.29%
SFDCP SMALL CAP CORE EQUITY PORTFOLIO	\$4,751,972.77	0.29%
SFDCP SMALL CAP GROWTH EQUITY PORTFOLIO	\$20,589,016.59	1.27%
SFDCP SMALL CAP VALUE EQUITY PORTFOLIO	\$41,707,080.31	2.58%
SFDCP STABLE VALUE PORTFOLIO	\$546,101,634.80	33.74%
TOTAL INVESTMENT FUNDS AT ING	\$1,618,516,911.83	100.00%
TOTAL ANNUITY ASSETS AT ING	\$1,800,590.72	
TOTAL ANNUITY ASSETS AT THE HARTFORD	\$24,117,558.37	
TOTAL PLAN ASSETS	\$1,644,435,060.92	

Number of Plan Participants:	23,021
Number of Active Plan Participants:	14,842
Number of Retirees Not Receiving Benefits:	2,774
Retirees Receiving Benefits from Hartford:	476
Retirees Receiving Benefits from ING:	1,119
Total Retiree Assets:	\$336,136,752.00

The Retirement Board reviewed the Investment Performance Analysis provided by Angeles Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the core investment fund lineup. As a result of the review, the Deferred Compensation Investment Review Committee recommended to the full Retirement Board, structural changes for the SFDCP Stable Value Fund, and changes of the underlying investment option of the SFDCP Small Cap Value Equity Portfolio, SFDCP Mid Cap Growth Equity Portfolio, and SFDCP Mid Cap Value Equity Portfolio.

Changes To The Core Investment Lineup During The 2006-2007 Fiscal Year:

PREVIOUS INVESTMENT FUND Underlying Investment Fund Name	TO	NEW INVESTMENT FUND Underlying Investment Fund Name
SFDCP Stable Value Fund ING Fixed Account 401/457	→	SFDCP Stable Value Fund ING Stabilizer
SFDCP Small Cap Value Equity Portfolio Ariel Fund	→	SFDCP Small Cap Value Equity Portfolio Target Small Cap Value
SFDCP Mid Cap Growth Equity Portfolio Goldman Sachs Growth Opportunities, Institutional Class	→	SFDCP Mid Cap Growth Equity Portfolio Columbia Acorn, Class Z
SFDCP Mid Cap Value Equity Portfolio ING JPMorgan Mid Cap Value Portfolio, Initial Class	→	SFDCP Mid Cap Value Equity Portfolio Riversource Mid Cap Value, Class R4

As a result of the change to the underlying core investment funds, modifications were also made to the SFDCP Long Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Near Term Portfolio.

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going education, plan enhancements, well performing investment funds, and a competitive fee structure.

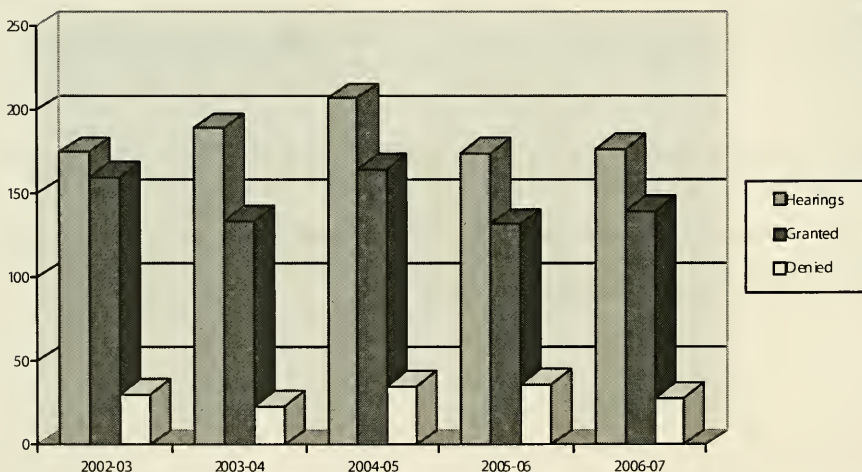
DISABILITY RETIREMENT

A member or, legal agent acting on behalf of the member can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System makes a preliminary determination about the claim, and if in order, forwards the application to the City Attorney's office for review. If uncontested by SFERS counsel, the application is referred to the American Arbitration Association or the Office of Administrative Hearings for hearing. All such applications shall be adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2007.

HEARING OFFICER REPORT¹ *Fiscal Year Ended June 30, 2007*

CASES	TOTAL # OF HEARINGS	TOTAL # GRANTED	TOTAL # DENIED
INDUSTRIAL DISABILITY RETIREMENTS	71	53	9
ORDINARY DISABILITY RETIREMENTS	91	78	8
DEATH BENEFITS	1	1	1
PETITIONS FOR REHEARING	3	2	10
PERS	11	6	0
REINSTATEMENTS	0	0	0
TOTAL	177	140	28

HEARING OFFICER REPORT *Five-Year Comparison*



1. The Hearing Officer Report represents cases processed in the period July 1, 2006 – June 30, 2007, and may reflect cases pending from prior periods.

FISCAL DIVISION

Administering mandated benefit programs and providing promised benefits

The Fiscal Division is responsible for trust accounting as well as, providing financial information to management to help facilitate planning, control, and decision-making. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information include disclosures as required by Governmental Accounting Standards Board (GASB)

The accounting and financial reporting functions are divided into several major activities, which include:

- Investments accounting
- Accounting for member and employer contributions
- Benefits payment accounting
- Accounting for employees' deferred compensation
- Budget and appropriations control
- General ledger and all financial reporting

In addition, the Fiscal Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the employees' Retirement System is adequately funded at all times.

The accompanying audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets for fiscal years ended June 30, 2007 and 2006, provide information on the financial status of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2007.

Readers who have questions regarding the financial information provided in this report are encouraged to contact SFERS and request the full set of audited *Financial Statements and Supplemental Schedule* as prepared by the City's independent auditors, Williams, Adley & Company, LLP.

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF PLAN NET ASSETS
Years Ended June 30, 2007 and 2006
Information derived from audited Financial Statements

ASSETS	2007	2006
	(in thousands)	
Deposits	\$77,027	\$24,728
Contributions receivable – members	4,009	5,688
Contributions receivable – City and County	7,680	4,720
Investment income receivable:		
Interest	36,538	30,864
Dividends	11,296	8,662
Securities lending	492	1,048
Dollar Roll	1,923	424
Receivables from brokers, general partners, others	853,921	133,277
Investments at fair value:		
Short-term investments	1,426,876	943,168
Debt securities:		
U. S. government securities	2,021,509	1,151,022
Other debt securities	2,233,174	2,518,880
Equity securities	8,835,816	7,197,575
Real Estate	1,698,685	1,316,852
Venture capital	1,604,653	1,492,752
Forward currency contracts, net	10,466	—
Investments in lending agents' short-term investment pool	<u>2,220,679</u>	<u>2,040,873</u>
TOTAL INVESTMENTS:	\$20,051,858	\$16,661,122
TOTAL ASSETS:	\$21,044,744	\$16,870,533
LIABILITIES		
Payable to brokers	\$1,390,144	\$209,422
Obligations under fixed coupon dollar repurchase agreements	468,164	99,141
Foreign Currency Contracts, net	—	12,825
Other liabilities	13,714	11,250
Payable to borrowers of securities	<u>2,220,679</u>	<u>2,040,873</u>
TOTAL LIABILITIES:	4,092,701	2,373,511
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	\$16,952,043	\$14,497,022

SAN FRANCISCO CITY AND COUNTY EMPLOYEES' RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN PLAN NET ASSETS
Years Ended June 30, 2007 and 2006
Information derived from audited Financial Statements

	2007	2006
	(in thousands)	
ADDITIONS		
Member contributions:		
Miscellaneous	\$148,453	\$136,665
Police	15,491	11,313
Firefighter	<u>11,803</u>	<u>14,715</u>
Total Member Contributions	175,747	162,693
City and County contributions:		
Miscellaneous	110,317	104,064
Police	12,602	9,696
Firefighter	<u>9,682</u>	<u>12,773</u>
Total City & County Contributions	132,601	126,533
Investment income (expenses):		
Interest	239,088	227,637
Dividends	167,408	144,493
Net appreciation (depreciation) in fair value of investments	2,424,598	1,337,830
Securities lending income	106,208	77,358
Fixed coupon dollar repurchase agreement income	27,050	5,467
Investment expenses	(44,009)	(40,785)
Securities lending borrower rebates and expenses	(98,375)	(67,909)
Fixed coupon dollar repurchase agreement finance charges and expenses	<u>(25,129)</u>	<u>(5,372)</u>
Investment gain/(loss), net	2,796,839	1,678,719
Total additions/(deductions)	\$3,105,187	\$1,967,945

DEDUCTIONS

Benefits	631,159	586,245
Refunds of contributions	7,645	8,719
Administrative expenses	<u>11,362</u>	<u>11,222</u>
Total Deductions	\$650,166	\$606,186
Net increase/(decrease)	\$2,455,021	\$1,361,759

NET ASSETS HELD IN TRUST FOR PENSION BENEFITS

Beginning of year	\$14,497,022	\$13,135,263
End of year	\$16,952,043	\$14,497,022

The following four pages contain reports detailing SFERS pension trust income and disbursements, and comparing employer and employee contributions and administrative expenditures for the three year period July 1, 2004 – June 30, 2007.

SFERS PENSION FUND INVESTMENT INCOME

Fiscal Year 2006-07

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
Interest Earned			239,087,753
Dividends Earned			167,408,043
Securities Lending Income-Net			7,833,522
Dollar Roll Income – Net			1,920,980
Recaptured Commission Income – Net			(208,396)
Real Estate Income			24,760,864
Alternative Investment Income			54,427,648
Investment Expenses			(43,557,668)
TOTAL INCOME¹:			\$538,788,082
NET APPRECIATION IN FAIR VALUES:			
Short-Term Securities	(\$28,540,884)	\$21,465,226	(\$7,075,658)
Equities	687,587,866	886,875,918	1,574,463,784
Debt Securities	73,024,484	(21,597,161)	51,427,323
Real Estate	21,787,647	382,838,280	404,625,927
Venture Capital	220,026,179	95,502,315	315,528,494
Other Assets	665,759	5,530,924	6,196,683
TOTAL NET APPRECIATION:	\$974,551,051	\$1,370,615,502	\$2,345,166,553
TOTAL INCOME (including Net Appreciation):			\$2,883,954,635
INCREASE/(DECREASE) FROM FY 2005-06:			\$1,205,235,733

1. Total income excludes employee and employer contributions.

SFERS PENSION FUND DISBURSEMENTS
Plan Year 2006-07

PAYMENTS/EXPENSES	AMOUNT
Service Retirement Payments	\$463,232,183
Disability Retirement Payments	122,880,668
Proposition C – Cost of Living Adjustment	33,641,610
Death Allowance Payments	3,896,688
Death Benefits	2,678,827
Normal Contributions Paid as Death Benefit	3,412,834
Retired Annuitant Rolls (Option 1 Death Benefit)	1,416,248
Refunds of Contributions	7,644,996
Administrative Expenses: Retirement Services/Administration	11,361,871
TOTAL PAYMENTS & EXPENSES	\$650,165,925
INCREASE/(DECREASE) FROM FY 2005-06:	\$43,980,130

SFERS CONTRIBUTIONS – 3 YEAR COMPARISON

Employer (City and County) Contributions

MEMBER PLAN	PLAN YEAR 2006-07	PLAN YEAR 2005-06	PLAN YEAR 2004-05
MISCELLANEOUS PLAN	\$110,317,193	\$104,064,428	\$69,122,769
FIREFIGHTER PLAN	9,681,960	9,696,305	6,184,668
POLICE PLAN	12,602,415	12,772,942	8,355,930
TOTAL	\$132,601,568	\$126,533,675	\$83,663,367

Employee Contributions

MEMBER PLAN	PLAN YEAR 2006-07	PLAN YEAR 2005-06	PLAN YEAR 2004-05
MISCELLANEOUS PLAN	\$148,452,563	\$136,664,886	\$139,442,651
FIREFIGHTER PLAN	11,802,825	11,313,204	10,689,574
POLICE PLAN	15,491,371	14,715,115	14,232,984
TOTAL	\$175,746,759	\$162,693,205	\$164,365,209

SFERS ACTUAL ADMINISTRATIVE EXPENDITURES - 3 YEAR COMPARISON

Retirement Services/Administration Divisions

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2006-07	2005-06	2004-05
Personnel Services	\$6,014,410	\$5,149,655	\$4,790,890
Equipment Purchase	0	29,023	49,742
Materials and Supplies	119,260	146,280	153,149
Services of Other Departments	3,739,136	3,956,423	4,092,215
Other Services	1,489,065	1,939,980	1,507,484
TOTAL	\$11,361,871	\$11,221,361	\$10,593,480

Investment Division

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2006-07	2005-06	2004-05
Personnel Services	\$1,589,905	\$1,533,095	\$1,659,436
Equipment Purchase	34,069	6,622	33,227
Materials and Supplies	16,397	6,032	6,125
Services of Other Departments	368,399	408,353	401,532
Other Services	41,435,148	35,499,830	25,074,914
TOTAL	\$43,443,918	\$37,453,932	\$27,175,234

All Divisions

DESCRIPTION OF EXPENDITURES	ALL DIVISIONS		
	2006-07	2005-06	2004-05
GRAND TOTAL	\$54,805,789	\$48,675,293	\$37,768,714

INVESTMENT DIVISION

Dedicated to securing, protecting and prudently investing the pension trust assets

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. However, the Retirement System's investment objective has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

As of June 30, 2007, approximately 17% of SFERS trust assets were managed internally, including \$751 million in domestic bonds and \$2.2 billion in domestic equities. The balance of the portfolio was managed externally by investment firms that specialize in specific asset classes including international and domestic equities, global fixed income, alternative investments and real estate.

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in September 2007:

Asset Class	Policy Target	Policy Range	Actual
US Equity	28%	22-34%	29.2%
International Equity	20%	16-24%	22.9%
Global Fixed Income	30%	24-36%	25.1%
Alternative Assets	12%	9-15%	9.5%
Real Estate	10%	8-13%	10.0%
Cash	0%	0-1%	3.3%

Investment Performance Highlights for Fiscal Year Ended June 30, 2007

For the Fiscal year ended June 30, 2007, the Investment portfolio of the Retirement System benefited from continued economic and capital market growth, ending the fiscal year with a return of 18.71%. On a broad asset class basis, Alternative Investments, Equities and Real Estate were the stellar performers for the year, returning 29.33%, 23.6%, and 16.50%, respectively. Fixed Income returns were strengthened by exposure to higher performing areas including Emerging Markets debt and High Yield, with the total Fixed Income Portfolio returning 7.27% for the year.

Equity

Returns for the combined equity portfolio were 23.60% for the fiscal year, underperforming the total equity policy benchmark return of 24.01% by 41 basis points. The US equity portfolio return was 18.86%, underperforming the Russell 3000 benchmark return of 20.07% by 121 basis points. The International equity portfolio offset the modest underperformance of the domestic markets returning 30.07%, outperforming the benchmark return of 29.62% by 45 basis points.

2006-07 Commitments/Enhancements:

- September 12, 2006, Ashmore Global Special Situations Fund III., \$25 Million
- July 11, 2006, Approval of International Developed Markets Equity Guidelines
- Completed a search for International Developed Markets Equity managers

Fixed Income

The Fixed Income portfolio pulled out a strong performance for the fiscal year. The asset class provided a 7.27% rate of return for fiscal year ended June 30, 2007—versus the benchmark Lehman Universal/Aggregate return of 6.17%. Domestic Fixed Income contributed to the performance with a sound 6.96% return for the fiscal year, and exposure to Global Fixed Income securities enhanced the portfolio with a solid 8.04% return for the fiscal year.

At the end of the fiscal year the Retirement Board approved a major restructuring of the fixed income asset class. Recognizing that fixed income markets have greatly expanded and become more universal in nature, two of the System's global bond managers were replaced by four new Core-Plus mandates. The total fixed income portfolio is now measured against the Lehman Universal Index as a standard of performance. This index includes bond investments in the expanding emerging markets debt and corporate high yield bond sectors.

2006-07 Commitments/Enhancements:

- July 11, 2006, Approval of Revised Investment Guidelines for Oaktree Capital Management (High Yield Fixed Income Manager)
- September 12, 2006 Approval of Revised Investment Guidelines for Prima Capital Management (Mortgage Fixed Income Manager)
- November 14, 2006, Approval to Terminate W.R. Huff (High Yield Manager)
- December 12, 2006, Approval of Request for Proposal for Core-Plus Fixed Income Manager(s)
- May 8, 2007, Approval of Finalist(s) for Core Plus Fixed Income Management
- June 12, 2007, Approval of Investment Guidelines for Core Plus Fixed Income Manager(s)

Alternative Investments

The Retirement Board approved an annual investment plan for the Alternative Investment Program recommending an investment pace of approximately \$525 million for calendar year 2007. The new commitments were invested in a diversified set of private equity limited partnerships sponsored by investment management firms currently managing money for SFERS, or newly selected investment management firms with strategies aimed at enhancing the portfolio. At fiscal year-end, the market value for alternative investments was \$1.6 billion, or 9.47% of the total fund assets.

The alternative investment portfolio returned 29.33% for the fiscal year. Over a ten-year period, the portfolio earned a 19.11% annualized return, exceeding the performance benchmark (the S&P 500 + 5% over a rolling ten-year period) by 535 basis points.

2006-07 Alternative Investments Commitments:

Buy Out:

- July 11, 2006, Avenue Asia Special Situations Fund IV, L.P., \$20 million
- September 12, 2006, Cerberus Institutional Partners L.P. – Series 4, \$20 Million
- December 12, 2006, Hellman & Friedman Fund VI, \$40 million
- January 9, 2007, Thomas H. Lee Fund VI, \$40 Million
- February 13, 2007, Providence Equity Partners VI, L.P., \$30 Million
- February 13, 2007, Doughty Hanson & Co. V, L.P., €23 million
- March 20, 2007, Apax Europe VII, L.P., €23 million
- March 20, 2007, Sun Capital Partners, V, L.P., \$30 Million
- May 8, 2007, Institutional Venture Partners XII, L.P., \$20 million

Venture:

- July 11, 2006, SyncomV, L.P., \$10 Million
- September 12, 2006, Sofinnova Venture Partners VII, L.P., \$15 Million
- January 9, 2007, Technology Partners Fund VIII, \$20 million

Special Situations:

- September 12, 2006, Parish Capital Fund II, L.P., \$10 million
- January 9, 2007, Sankaty Credit Opportunities Fund III, L.P., \$20 million
- February 13, 2007, Greenpark International Investors III, L.P., €23 million
- March 20, 2007, OCM Opportunities Fund VII, L.P., \$30 million
- April 10, 2007, Weathergage Venture Capital, L.P., \$20 million
- April 10, 2007, Merit Energy, \$25 million
- June 12, 2007, MatlinPatterson Global Opportunities Partners III, \$30 million
- June 12, 2007, Parish Capital Special Opportunity Fund I, \$20 million

Real Estate

Real Estate continues to be an attractive asset class for SFERS. It provides diversification against other asset classes such as equities, fixed income and alternative investments, along with attractive comparable risk-adjusted performance. During 2006 and the first half of 2007, capital allocations to purchase real estate by pension plans continued to increase. Real Capital Analytics reported that over the last five years transaction volumes have increased 33 percent annually. Liquidity and low cost debt continue to support higher sale prices.

The real estate allocation approved by the Retirement Board is 10%, with an allowable range of 8% - 13% of total plan assets. At fiscal year-end, SFERS' real estate portfolio was \$1.7 billion in equity (before debt and unfunded commitments), 10% of total plan assets.

SFERS' real estate consultant reports that the real estate portfolio provided a 16.5% net return for the trailing one-year period ending June 30, 2007. For the three-year and five-year periods, the net returns were 19.8% and 15.8% respectively. The SFERS uses the National Property Index (NPI) plus 1.5% as reported by Pension Real Estate Associate (the industry's association of institutional investors) for benchmarking real estate returns. For the five-year period ended June 30, 2007, the NPI return (on a gross basis) plus 1.5% was 16.1%, compared to SFERS real estate net return of 15.8%.

The Retirement Board approved an allocation of up to \$150 million for a global real estate securities search. This allocation will increase the percentage of the real estate portfolio invested internationally. The search will be completed in fiscal year 2007-08.

2006-07 Real Estate Commitments:

- November 14, 2006, Capmark 50/50 Multifamily Co-investment Program, increased by \$25 million
- November 14, 2006, Capmark 50/50 Co-investment for High Return Sector, \$75 million

INVESTMENT PORTFOLIO PERFORMANCE¹
Annualized Returns for the Periods ending 6/30/2007
 (Net of fees and expenses)

	ONE YEAR	3 YEARS	5 YEARS
DOMESTIC EQUITY <i>Benchmark: Russell 3000</i>	18.86% 20.07%	11.74% 12.44%	10.71% 11.53%
INTERNATIONAL EQUITY <i>Benchmark: MSCI ACWI Free ex US</i>	30.07% 29.62%	24.83% 24.52%	19.95% 19.45%
GLOBAL FIXED INCOME <i>Benchmark: Lehman Global</i>	7.27% 6.17%	6.64% 4.45%	7.76% 5.00%
REAL ESTATE¹ <i>Benchmark: Gross NPI + 1.5%</i>	16.50% 19.00%	19.80% 19.80%	15.80% 16.10%
ALTERNATIVE ASSETS <i>Benchmark: S&P + 6% through 12/31/06; S&P + 5% beginning 1/1/07</i>	29.33% 25.59%	30.37% 16.68%	19.11% 15.71%
TOTAL FUND <i>Weighted Policy Benchmark</i>	18.71% 18.00%	14.90% 13.30%	12.66% 11.71%

1. Real Estate returns calculated by the Townsend Group and are net of fees and expenses.

PORTFOLIO INVESTMENTS

as of June 30, 2007

CATEGORY	COST	% OF TOTAL	MARKET	% OF TOTAL
Cash & Cash Equivalents	\$482,846,959	3.43%	\$558,205,607	3.29%
EQUITIES				
Consumer Discretionary	434,995,199	3.09%	535,572,661	3.16%
Consumer Staples	191,528,321	1.36%	282,152,230	1.66%
Energy	235,604,857	1.67%	439,774,722	2.59%
Financials	660,342,572	4.69%	931,863,556	5.50%
Health Care	467,260,619	3.32%	594,317,341	3.51%
Industrials	326,891,829	2.32%	491,176,351	2.90%
Information Technology	603,936,754	4.29%	769,390,163	4.54%
Materials	77,126,107	0.55%	119,683,449	0.71%
Miscellaneous	287,315,631	2.04%	513,194,522	3.03%
Telecommunication Services	112,365,269	0.80%	146,838,357	0.87%
Utilities	86,349,545	0.61%	134,241,232	0.79%
Foreign Stock	2,986,853,012	21.21%	3,877,611,848	22.87%
Equities Total	\$6,470,569,716	45.95%	\$8,835,816,432	52.12%
FIXED INCOME				
Consumer Discretionary	\$27,367,974	0.19%	\$27,049,501	0.16%
Consumer Staples	11,794,221	0.08%	11,715,524	0.07%
Energy	5,557,421	0.04%	5,529,570	0.03%
Financials	35,853,866	0.25%	36,304,059	0.21%
Health Care	12,123,435	0.09%	12,000,707	0.07%
Industrials	5,291,906	0.04%	5,190,902	0.03%
Information Technology	2,416,050	0.02%	2,343,963	0.01%
Materials	3,985,671	0.03%	4,040,040	0.02%
Miscellaneous	1,868,543,944	13.27%	1,839,122,933	10.85%
Telecommunication Services	4,368,714	0.03%	4,419,922	0.03%
US Government	2,025,737,868	14.38%	2,021,509,157	11.92%
Utilities	10,390,770	0.07%	9,979,470	0.06%
Foreign government and corporate	236,317,667	1.68%	275,477,765	1.63%
Fixed Income Total	\$4,249,749,508	30.18%	\$4,254,683,513	25.10%
OTHER INVESTMENTS				
Real Estate	\$1,137,372,003	8.08%	\$1,698,684,826	10.02%
Venture Capital & Partnerships	1,742,000,153	12.37%	1,604,653,365	9.47%
Other Investments Total	\$2,879,372,155	20.45%	\$3,303,338,191	19.49%
Grand Total	\$14,082,538,338	100.00%	\$16,952,043,743	100.00%

INVESTMENT EARNINGS AND ASSETS

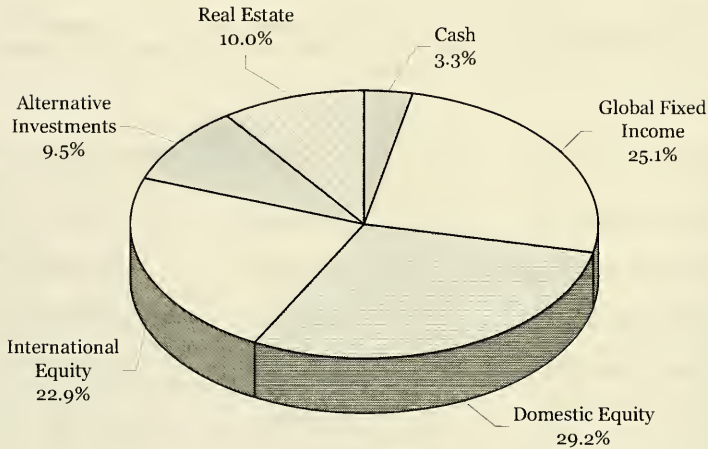
Three Year History

FISCAL YEAR ENDED JUNE 30:	2007	2006	2005
INVESTMENT EARNINGS			
Equity Dividend Income	\$167,408,043	\$144,493,457	\$121,030,110
Real Estate Income	24,760,864	43,634,714	50,043,062
Alternative Investment Income	54,427,648	131,252,248	82,763,365
Realized Gains/(Loss)	974,551,051	1,138,492,694	561,435,485
Unrealized Gains/(Loss)	1,370,615,502	24,037,082	551,073,327
Interest	239,087,753	227,637,389	188,211,091
Other Income: Securities Lending, Dollar Roll and Recaptured Commissions	9,997,788	9,955,052	8,053,200
Total Investment Earnings	\$2,840,848,649	\$1,719,502,636	\$1,562,609,640

FISCAL YEAR ENDED JUNE 30:	2007	2006	2005
PORTFOLIO ASSETS - FAIR VALUE			
Fixed Income	\$4,254,683,513	\$3,669,901,141	\$3,629,226,794
Equities	8,835,816,432	7,197,574,709	6,425,337,310
Real Estate	1,698,684,826	1,316,852,291	1,084,785,351
Alternative Investments	1,604,653,365	1,492,752,429	1,436,795,576
Money Market Assets	558,205,607	819,941,471	559,117,965
Total Fair Value of Portfolio	\$16,952,043,743	\$14,497,022,041	\$13,135,262,996

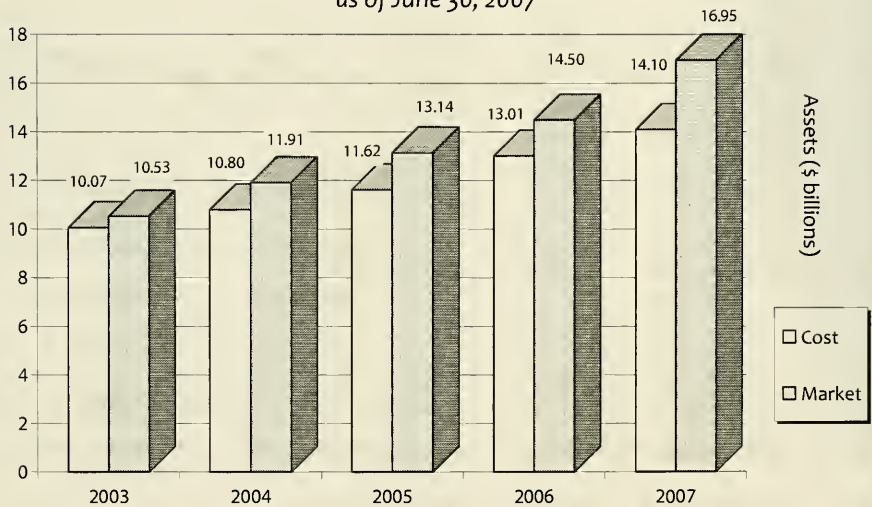
ASSET ALLOCATION BY MARKET VALUE

as of June 30, 2007



PENSION FUND NET ASSETS

as of June 30, 2007



RETIREMENT SERVICES DIVISION

Administering mandated benefit programs and providing promised benefits

The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries. Services include:

- *Active and Retired Member Counseling*
- *Active and Retired Member Recordkeeping*
- *Member Payroll Accounting*
- *Calculation of Benefits*
- *Member Communications*
- *Pre-retirement Education*
- *Payroll and Tax Reporting*

SFERS PLAN MEMBERSHIP

The Retirement System administers three separate benefit plans for the City and County of San Francisco according to employee group: they are the Police Plan, the Firefighter Plan, and the Miscellaneous Plan. Each of these plans consists of a New Plan and an Old Plan. Generally, police, firefighter and miscellaneous employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans. Police, firefighters and miscellaneous employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans. Current Police and Firefighter Plan benefits were established by Charter amendment passed in November 2002 and current Miscellaneous Plan benefits were established by Charter amendment passed in November 2000. A description of each Plan by Charter section is found on page 33.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

On September 1, 1995, Retirement System membership rules were changed: employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during any 12-month period become eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, members of the Police and Firefighter Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while members of the Police and Firefighter New Plans automatically became members of SFERS under San Francisco Charter Sections A8.598 and A8.596 under provisions of Proposition H passed by the voters in November 2002.

Members of the Miscellaneous Plan are also members of the Social Security System, beginning September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement. This reduced contribution provision is no longer available to SFERS members.

Employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems (e.g., deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; school teachers are members of the State Teachers Retirement System).

SFERS PLAN MEMBERSHIP CHARTER REFERENCES:

Charter Section	Employee Group
S.F. Charter Section A8-509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8-587	Miscellaneous employees who became members on or after November 2, 1976
S.F. Charter Section A8-559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Sections A8-559-14 and A8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8-595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-585-14 A8.588	Firefighters who elected 1981 Proposition F and (Buyout) benefits
S.F. Charter Section A8-596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8-598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

SFERS MEMBERSHIP SUMMARY

SFERS active membership falls within three categories:

1. Active Members who are currently on City and County Payroll
2. Vested Members who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
3. Reciprocal Members who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2007, there were 30,340 members of the Miscellaneous Plans, 2,184 members of the Police Plans and 1,536 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP as of June 30, 2007

PLAN MEMBERSHIP GROUP	NUMBER OF MEMBERS			TOTAL
	ACTIVE	VESTED	RECIPROCAL	
OLD MISCELLANEOUS PLAN MEMBERS BEFORE NOVEMBER 2, 1976	690	18	7	715
NEW MISCELLANEOUS PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	25,918	2,967	740	29,625
OLD POLICE PLAN MEMBERS BEFORE NOVEMBER 2, 1976	51	0	0	51
NEW POLICE PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,040	84	9	2,133
OLD FIREFIGHTER PLAN MEMBERS BEFORE NOVEMBER 2, 1976	28	0	0	28
NEW FIREFIGHTER PLAN MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,463	27	18	1,508
TOTALS:	30,190	3,096	774	34,060

New Miscellaneous Plan members comprise approximately 89.1% of the total SFERS Plan membership, while Old Miscellaneous Plan members (employees hired before November 2, 1976) make up approximately 2.4% of total Miscellaneous Plan members.

Police officers and firefighters comprise approximately 6.4% and 4.5% of the total membership, respectively.

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES¹
As a Percentage of Covered Payroll

COVERED PLAN YEAR	POLICE	FIREFIGHTER	MISCELLANEOUS
1995-1996 (1 ST HALF)	14.79%	12.44%	4.98%
1995-1996 (2 ND HALF)	12.69%	10.58%	4.29%
1996-1997 (1 ST HALF)	0%	0%	1.83%
1996-1997 (2 ND HALF)	0%	0%	0%
1998-2004	0%	0%	0%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%
2006-2007	6.24%	6.24%	6.24%
2007-2008	5.91%	5.91%	5.91%

EMPLOYEE CONTRIBUTION RATES
As a Percentage of Covered Payroll

PLAN MEMBERSHIP GROUP	RATE OF CONTRIBUTION
MISCELLANEOUS (OLD) ²	8.00%
MISCELLANEOUS (NEW)	7.50%
POLICE (OLD)	7.00%
POLICE (NEW)	7.50%
FIREFIGHTER (OLD)	7.00%
FIREFIGHTER (NEW)	7.50%

1. Contribution Rates are composite rates for Old and New groups.

2. Contributions for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

SFERS RETIREMENT STATISTICS

Plan Year Ended June 30, 2007

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2006-07, as well as benefits payment summaries and comparisons:

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2006-07 and 2005-06:

ACTIVITY	2006-07	2005-06
RETIREMENT ESTIMATES REQUESTS	1228	1234
RETIREMENT APPOINTMENTS	1646	1691
RETIREMENT APPLICATIONS PROCESSED	929	1150
BUYBACK APPOINTMENTS	1745	2006
PERSONNEL TRANSACTIONS:	2961	2166
NEW MEMBERS (NEW HIRES)	1457	936
NEW MEMBERS (1040 HOURS MEMBERSHIP)	917	790
REHIRES	187	194
POLICE RECRUITS	315	150
FIRE RECRUITS	85	96
ONE-STOP APPOINTMENT PROCESSING	567	n/a
VISITORS	9,559	10,701
HOME VISITS	16	14
GROUP PRESENTATIONS	12	7
BENEFICIARY CHANGES	1192	1328
REFUND PACKETS	1212	1348
VERIFICATION OF PENSION OR BENEFIT DATA	830	967
ELECTRONIC FUND TRANSFER (NEW AND CHANGES)	2348	2534
OTHER ACTIVITIES (ADDRESS CHANGES, NAME CHANGES, ETC.)	2139	2216
PRE-RETIREMENT SEMINARS	9	6
REGISTERED ATTENDEES AT PRE-RETIREMENT SEMINARS	931	544
MID-CAREER RETIREMENT PLANNING SEMINARS	1	2
REGISTERED ATTENDEES AT MID-CAREER SEMINARS	79	242
NEW MEMBER RETIREMENT PLANNING SEMINARS	3	1
REGISTERED ATTENDEES AT NEW MEMBER SEMINARS	148	32

Retirement appointments decreased 2.7% and retirement applications processed decreased 19.2% in Plan Year 2006-07 over the prior Plan Year.

SFERS Retirement Services Division sponsored and conducted nine pre-retirement seminars during Plan Year 2006-07. These seminars provided individualized benefits counseling for 931 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar and three new member retirement planning seminars for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Fire Department, the Unified School District, the Community College District, Human Services Department and the Public Utilities Commission (including Hetch Hetchy).

NEW RETIREMENTS EFFECTIVE DURING *Plan Year Ended June 30, 2007*

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	731	188	N/A	28	947
POLICE	56	3	7	1	67
FIREFIGHTER	89	0	5	1	95
TOTALS	876¹	191	12	30	1,109

The total number of new retirements effective during Plan Year 2006-07 was 3.6% higher than retirements in Plan Year 2005-06 despite of the decrease in Early Retirement Program elections during the year (from 80 elections in Plan Year 2005-06 to 25 elections in Plan Year 2006-07). Service retirements represent 79.0% of the total of new retirements processed.

Miscellaneous retirements represented 85.4% of the total retirements processed in Plan Year 2006-07, a decrease from 86.7% in Plan Year 2005-06.

Police retirements represented 6.0% of the total retirements processed in Plan Year 2006-07, no change from 6.0% in Plan Year 2005-06.

Firefighter retirements represented 8.6% of the total retirements processed in Plan Year 2006-07, an increase from 7.3% in Plan Year 2005-06.

1. Total service retirements in Plan Year 2006-07 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

MISCELLANEOUS PLAN RETIREMENTS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENT	VESTING RETIREMENT	ORDINARY DISABILITY	TOTAL	PERCENTAGE OF TOTAL
0-4	9	1	0	10	1.1%
5-9	12	108	0	120	12.7%
10-14	82	38	12	132	13.9%
15-19	90	39	8	137	14.5%
20-24	172	1	5	178	18.8%
25-29	126	1	1	128	13.5%
30-34	157	0	2	159	16.8%
35-39	78	0	0	78	8.2%
40 AND ABOVE	5	0	0	5	0.5%
TOTAL	731	188	28	947	100.0%
PERCENT	77.2%	19.8%	3.0%	100.0%	

Approximately 60.9% of the total Miscellaneous Plan retirements had less than 25 years of service. The average number of years of service credited to Miscellaneous Plan retirees who retired in Plan Year 2006-07 was 21.8 years.

Miscellaneous Plan service retirees were credited with an average of 24.9 years of service while those who retired for ordinary disability were credited with an average of 17.6 years of service.

AGE AT RETIREMENT

AGE	SERVICE	VESTING	ORDINARY DISABILITY	TOTAL	PERCENT OF TOTAL
UNDER 55	48	113	23	184	19.4%
55-59	134	48	5	187	19.8%
60-64	354	20	0	374	39.5%
65 AND OVER	195	7	0	202	21.3%
TOTAL	731	188	28	947	100.0%

The average age of all Miscellaneous Plan members who retired in Plan Year 2006-07 was 60.4 years; the average age of Miscellaneous Plan members who retired for Service was 62.2 years; and the average age of Miscellaneous Plan members who retired for Ordinary Disability was 50.9 years.

POLICE AND FIREFIGHTER PLAN MEMBERS

SERVICE CREDIT AT RETIREMENT

YEARS OF SERVICE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY ¹	TOTAL	PERCENT OF TOTAL
0-4	0	0	1	1	0.6%
5-9	7	1	1	9	5.6%
10-14	4	0	4	8	4.9%
15-19	3	2	1	6	3.7%
20-24	6	0	1	7	4.3%
25-29	74	0	2	76	46.9%
30-34	43	0	3	46	28.4%
35 AND OVER	8	0	1	9	5.6%
TOTAL	145	3	14	162	100%
PERCENT	89.5%	1.9%	8.6%	100%	

Approximately 19.1% of the total Police and Firefighter Plan retirements had less than 25 years of service. The average number of years of service credited to Police and Firefighter Plan retirees who retired in Plan Year 2006-07 was 28.1 years.

Police and Firefighter Plan service retirees were credited with an average of 27.2 years of service while those who retired for industrial disability were credited with an average of 20.3 years of service.

AGE AT RETIREMENT

AGE	SERVICE RETIREMENTS	VESTING RETIREMENTS	INDUSTRIAL DISABILITY ¹	TOTAL	PERCENT OF TOTAL
UNDER 55	43	3	12	58	35.8%
55-59	86	0	2	88	54.3%
60-64	12	0	0	12	7.4%
65 AND OVER	4	0	0	4	2.5%
TOTAL	145	3	14	162	100.0%

The average age of all Police and Firefighter Plan members who retired in Plan Year 2006-07 was 55.8 years.

1. There were two Ordinary Disability retirements processed for Police and Firefighter Plan members in Plan Year 2006-07.

TOTAL RETIREMENT ALLOWANCES
Retired Members and Survivor Continuation Benefits
as of June 30, 2007

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS ¹	DEATH IN LINE OF DUTY	TOTAL
NUMBER OF RETIREMENT ALLOWANCES AS OF 6/30/2007:				
MISCELLANEOUS	14,629	1,920	N/A	16,549
MEMBER	12,217	1,388	N/A	13,605
CONTINUATION	2,412	532	N/A	2,944
POLICE	1,287	782	47	2,116
MEMBER	955	502	-	1,457
CONTINUATION	332	280	47	659
FIREFIGHTER	951	952	37	1,940
MEMBER	684	691	-	1,375
CONTINUATION	267	261	37	565
TOTAL	16,867	3,654	84	20,605

As of June 30, 2007, the total number of retirement allowances paid to retired members represented 79.8% of the total allowances paid; continuation allowances represented 20.2% of the total allowances paid.

MONTHLY RETIREMENT BENEFITS PAYABLE
Retired Members and Survivor Continuation Benefits
as of June 30, 2007

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS ¹	DEATH IN LINE OF DUTY	TOTAL
MONTHLY RETIREMENT BENEFITS PAYABLE AS OF JUNE 30, 2007:				
MISCELLANEOUS	\$30,075,635	\$2,964,565	N/A	\$33,040,200
POLICE	6,345,031	3,025,476	182,920	9,553,427
FIREFIGHTER	5,399,380	4,860,541	\$120,544	10,380,465
TOTAL	\$41,820,046	\$10,850,582	\$303,464	\$52,974,092

Monthly retirement allowances paid to Miscellaneous Plan members and continuants represent 62.4% of the total monthly retirement allowances paid during Plan Year 2006-07.

Monthly retirement allowances paid to service retirees represented 78.9% of the total monthly retirement allowances and monthly disability benefits represented 20.5% of the total monthly retirement allowances paid during Plan Year 2006-07.

1. Includes Ordinary Disability (Miscellaneous, Police, and Fire) and Industrial Disability (Police and Fire).

DEATH BENEFITS PAID – 3 YEAR COMPARISON

PLAN YEAR	2006-07	2005-06	2004-05
NUMBER OF DEATHS:			
ACTIVE MEMBERS	63	39	54
RETIRED MEMBERS	558	563	504
CONTINUANTS	216	212	205
TOTAL	837	814	763

The number of active and retired member deaths processed during Plan Year 2006-07 increased by 2.8% from Plan Year 2005-06.

WITHDRAWAL OF CONTRIBUTIONS – 3 YEAR COMPARISON

	MEMBER ACCOUNTS	PERCENT VARIANCE PRIOR YEAR	AMOUNT WITHDRAWN	PERCENT VARIANCE PRIOR YEAR
AS OF 6/30/2007				
MISCELLANEOUS	587		\$7,284,236	
POLICE	15		138,253	
FIREFIGHTER	0		0	
TOTAL	602	(5.0%)	\$7,422,489	(16.6%)
AS OF 6/30/2006				
MISCELLANEOUS	627		\$8,833,467	
POLICE	7		70,432	
FIREFIGHTER	0		0	
TOTAL	634	(6.6%)	\$8,903,899	4.5%
AS OF 6/30/2005				
MISCELLANEOUS	664		\$8,355,336	
POLICE	15		167,039	
FIREFIGHTER	0		0	
TOTAL	679	(4.1%)	\$8,522,375	11.3%





SFERS

San Francisco Employees' Retirement System

Providing Opportunities for Retirement Since 1889

Annual Report

For Fiscal Year Ended June 30, 2008



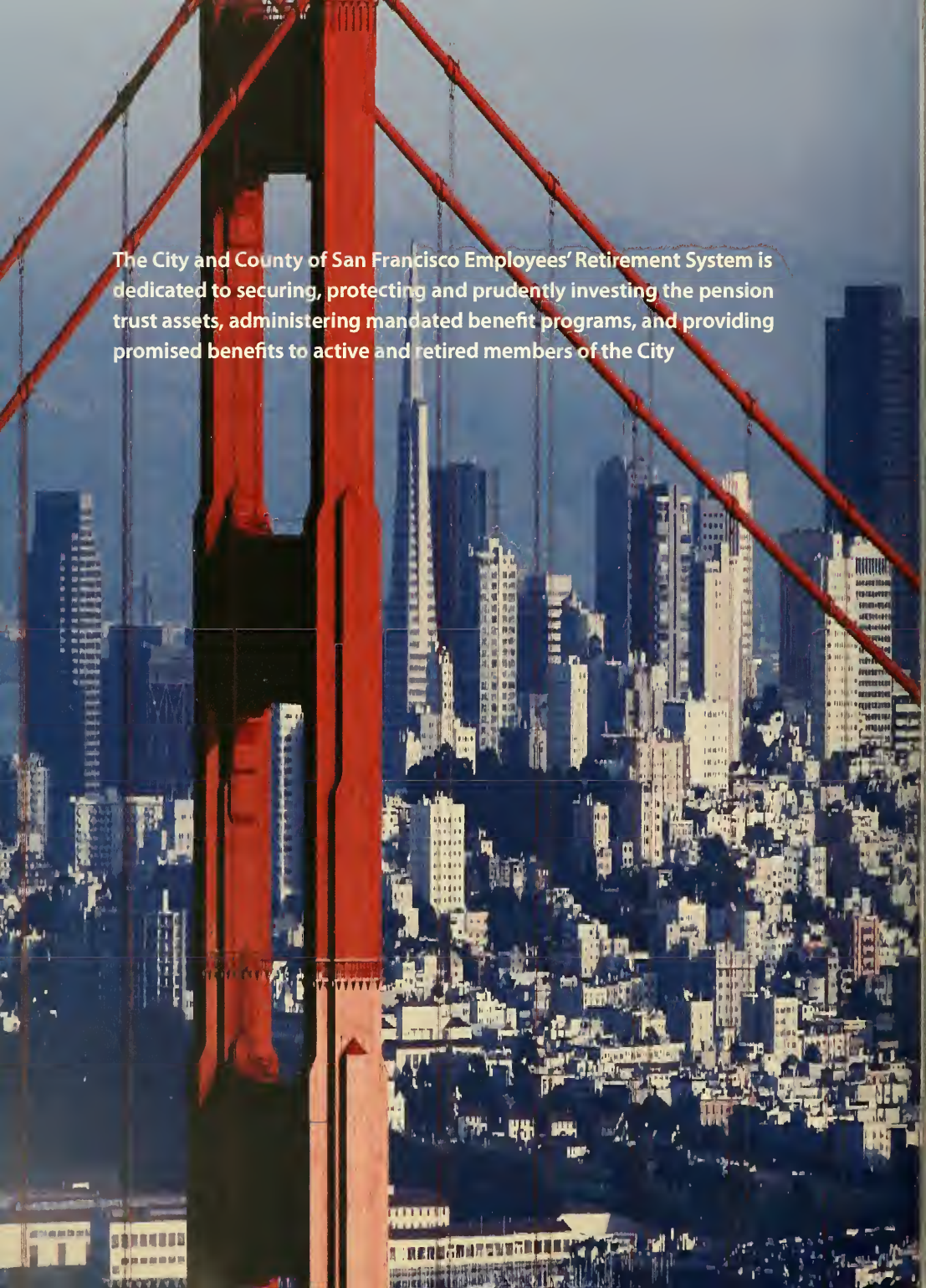
*Securing, protecting and
prudently investing the
pension trust assets*



*Administering
mandated benefit
programs*



*Providing
promised
benefits*

A photograph of the San Francisco skyline viewed from the Golden Gate Bridge. The bridge's red-orange steel structure, including a large vertical tower and diagonal cables, is in the foreground. In the background, the dense city of San Francisco is visible, with numerous skyscrapers and buildings under a clear blue sky. The text is overlaid on the upper left portion of the image.

The City and County of San Francisco Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits to active and retired members of the City

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Introduction

Administering mandated benefit programs and providing promised benefits

SFERS at a Glance

as of June 30, 2008

Plan Net Assets:	\$15.8 Billion
Funded Ratio:	110% (as of 7/1/07)
Total Benefits Paid:	\$690 Million
Member Contribution Rate: (post 1976 Plans)	7.5%
Employer Contribution Rate:	5.9%

Membership (during fiscal year 2007-08)

Total Membership:	52,164		
Active:	30,650	Retired:	21,514
Miscellaneous:	26,878	Miscellaneous:	17,396
Police:	2,243	Police:	2,141
Fire:	1,529	Fire:	1,977

Retirements (during fiscal year 2007-08)

Total Retirements:	783
Miscellaneous:	672
Police:	66
Fire:	45

Average Service Credit at Service Retirement:	25.3 Years
Miscellaneous:	20.4 Years
Police:	26.9 Years
Fire:	28.5 Years

Average Age at Service Retirement:	57.4 Years
Miscellaneous:	59.6 Years
Police:	55.5 Years
Fire:	57.2 Years

The Retirement System

History

The San Francisco Employees' Retirement System (SFERS) was created by the voters as a part of the San Francisco City Charter established in 1889. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan.
- San Francisco Deferred Compensation Plan, an IRS §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans (see "Plan Membership Charter References" on page 34).

The Pension Plan

The SFERS Pension Plan is a qualified defined benefit plan that provides for the following benefits upon separation: service and disability retirement, refund or vesting allowance, and pre- and post-retirement death benefits to beneficiaries. Defined benefit plans are funded through employee and employer contributions and investment earnings.

The SFERS has reciprocity with CalPERS, the county retirement systems subject to the 1937 Act Retirement Law, and certain other local, independent retirement systems that have a reciprocity contract with CalPERS (listed in the CalPERS Annual Financial Report).

The San Francisco Deferred Compensation Plan (SFDGP)

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. The SFDGP offers members an opportunity to supplement pension income during retirement.

Our Members

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

Our Mission

The San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

Administration

The Executive Director and the senior staff team comprise the Administration Division which oversees all other Divisions in the Department – Investments, Finance, Retirement Services, Information Systems, and Human Resources, as well as manages the day-to-day activities of the System including a network of professional consultants. The Administration Division also provides administrative support to the Retirement Board

in the preparation of meeting materials such as agendas and supporting documents, minutes and public notice requirements for the Board's and committee meetings. Additionally, Administrative staff interfaces with Board members in processing travel requests, orientation of new Board members, and facilitation of on-going educational opportunities for Board members.

In addition to overseeing Retirement System activities and supporting the Retirement Board, the Administration Division manages and administers Public Records Requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

Applications for disability retirement, and subsequent hearings before an Administrative Law Judge, are processed by the Administration Division as well, in consultation with the Workers Compensation Division of the Department of Human Resources. See the Appendix for the 2007-08 Disability Hearing Report.

Investments

The Retirement System's investment objective is to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

Finance

The Finance Division is responsible for trust accounting as well as providing financial information to senior management to help facilitate planning, control, and decision-making. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information presented in this report include disclosures as required by Governmental Accounting Standards Board (GASB).

Actuarial Services

The SFERS funding objective is to provide all promised benefits by adhering to a legally mandated and actuarially prudent funding plan, achieving superior investment returns within prudent risk controls, and minimizing employer contributions to the retirement fund.

The SFERS Retirement Board appoints an Actuary and contracts with a Consulting Actuary firm to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs, and in reporting actuarial information related to the benefit structure and funding of the Retirement System. In fiscal year 2006-07, the Retirement Board created a new Actuarial Services Coordinator position to oversee the SFERS actuarial activities. Until the position of Actuarial Services Coordinator is filled, the Retirement Board has appointed Executive Director Clare Murphy as Acting Actuary.

At the end of this fiscal year, the contract for the current consulting actuary expired. As a result, the Retirement Board approved a request for proposal (RFP) in search of a firm to provide consulting actuary services. In May 2008, upon staff's recommendation, the Board approved the selection of a new consulting actuary. Beginning July 1, 2008, Cheiron, a well-respected actuarial and financial consultancy firm specializing in institutional pension plans, will serve as the consulting actuary to the Retirement System.

The Retirement System pays an array of benefits to members and their survivors—service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. This report reflects Plan valuation for the Fiscal Year carried out by the actuarial consulting firm of Towers Perrin, based on data through June 30, 2007.

Retirement Services

The SFERS dedicates extensive resources to serving our members. The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries including active and retired member counseling, member communications, active and retired member recordkeeping, pre-retirement education, member payroll accounting, retiree payroll and tax reporting, calculation of benefits, termination benefits and death payments.

Fiscal year 2007-08 was yet another busy year. We enrolled 3,236 new members and added 783 new retirees. Our annual benefit payments totaled \$690 million and paid 21,514 retirees, their beneficiaries and exiting members. Additionally, Retirement Services conducted nine Pre-Retirement Seminars and one Mid-Career Seminar for the City's miscellaneous members.

The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System oversees Plan administration, pension fund investment, member benefits, and actuarial funding. Within the scope of their duties, the Board establishes policies governing the administration, management, and operation of the retirement plans; manages the investment of the Retirement System's assets; reviews and approves benefit determinations; and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan. A full description of Board duties is available in the Board Policy Manual. The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business.

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

The Retirement Board



Left to right: Sean Elsbernd; Richard H. Peterson, Jr.; Herb Meiberger; Brenda Wright; Vice President, Joe Driscoll; Al Casciato; and Michael Kim, President

SFERS Board Members

President

Michael Kim

Partner
Rustic Canyon Partners
Appointed Member

Vice President

Joseph D. Driscoll, C.F.A.

Lieutenant, Fire Department
Elected Member

Al Casciato

Captain, Police Department
Elected Member

E. David Ellington

Appointed Member
Through January 2008

Sean Elsbernd

Member, Board of Supervisors
Ex-Officio Member

Herb Meiberger, C.F.A.

Retiree
Elected Member

Richard H. Peterson, Jr.

JMA Ventures, LLC
Appointed Member
Beginning March 2008

Brenda Wright

Senior Vice President
Regional Manager Community Development
Wells Fargo & Company
Appointed Member

A Message From The President

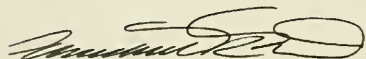
It has been an honor to serve as President of the San Francisco Employees' Retirement System (SFERS) Retirement Board for the fiscal year ending on June 30, 2008. As Trustees of the Retirement Board, we have a fiduciary duty to make careful, deliberate and measured decisions to strengthen the long term health of the Retirement System for its members. The Retirement Board works closely with the SFERS staff to identify and implement policies for the benefit of its 53,000 active and retired members, and their survivors.

On behalf of the Retirement Board and the SFERS staff, attached is the Annual Report for Fiscal Year 2007-2008. Below are several highlights of our key accomplishments.

- In response to our growing investment portfolio and increasingly sophisticated asset allocation, the Board initiated a review of the Investment Division staff organization to ensure we have sufficient human resources and the appropriate structure to manage our investment portfolio. We engaged an outside management consultant to assist us in this review, and the Board approved several recommendations, which increased the number of senior investment staff. The Executive Director and the senior staff at SFERS successfully marshaled this increased budget request through the City's budget process.
- The Board approved the implementation of an Investment Risk Management program, intended to identify and quantify various sources of risk within the Fund. The program includes the review and analysis of risks, determination of appropriate risk parameters and the procurement of systems required to effectively and efficiently monitor these risks in the SFERS investment portfolio. These risk assessment systems are currently being implemented.
- The Board conducted its annual review of the asset allocation of the investment portfolio. We reviewed statistical projections of various asset allocation scenarios, representing varying actuarial assumptions to gain a better understanding of how the Plan's assets and liabilities interact. We approved an asset allocation policy for FY 2008-09, consistent with our long-term performance objectives.
- The Board approved nearly \$680 million in investment allocations in accordance with investment policies and with respect to achieving targeted diversification and long-term performance goals. As of June 30, 2008, SFERS was fully funded with assets at 110% of liabilities. SFERS continues to be one of the highest funded public pension funds in the United States.
- We review the Third Party Administrator and Stable Value Fund Portfolio Manager every five years. During this fiscal year, the Board approved an RFP with the intent of offering SFDCP participants enhanced investment options at the lowest possible cost. Additionally, a new fund allocation was approved by the Board for the San Francisco 457(b) Deferred Compensation Plan. These will be implemented during the 2008-2009 fiscal year.

On behalf of the Retirement Board, I want to extend our appreciation to the members for their continued support, and to the SFERS staff for their effort and commitment to the System.

Sincerely,



Michael Kim, President
Retirement Board, City and County of San Francisco

Board Actions During Fiscal Year 2007-08

In fulfilling its duty as fiduciary of the retirement trust assets, and to ensure the health of the investment portfolio with the goal of providing benefits to members into perpetuity, the Retirement Board reviewed, approved, adopted and/or participated in the following actions during the fiscal year ended June 30, 2008:

Investments

In accordance with the annual investment plan, the investment team brings before the Board new investment opportunities with the objective of enhancing the structure and diversity of the investment portfolio and sustaining long-term performance.

In fiscal year 2007-08, under the authorization of the Board, the investment team committed \$490 million to the Alternative Investments portfolio, \$90 million to the Real Estate portfolio and \$100 million to the Fixed Income portfolio (see pages 18 – 21 for a detailed schedule of these investments).

Additionally, the Board adopted several new or revised policies, plans and/or guidelines essential to the overall governance of the retirement trust:

- Revised Investment Policy Statement
- Investment guidelines for eight managers
- Amendment to 2007 Annual Investment Plan for Alternative Investment Program to Increase Allowed Commitment Total
- Strategic Investment Plan for Alternative Investment Program
- Annual Investment Plan for Real Estate for Fiscal Year 2008-09
- Strategic Investment Plan for Real Estate
- Assumptions for Asset Liability Modeling Process Recommended by Staff and Investment Consultant
- Revised Asset Allocation Recommended by Staff and Investment Consultant
- Adopted an updated list of companies recommended for review regarding target divestment in Sudan, according to Level III of Social Investment Policy
- Institutional Shareholder Services (ISS) as Proxy Voting Service Provider
- Proxy Voting Guidelines for 2008

Actuarial

SFERS' primary obligation is to secure promised benefits for its members. In order to fulfill this obligation, the Retirement Board contracts with a consulting actuarial firm, whose principal responsibility is to prepare special studies of the plan and its populations on an annual basis, and to provide the Retirement Board with reports and recommended actions regarding key funding and benefit decisions.

During 2007-2008 the Retirement Board approved the following actuarial decisions:

- Consulting Actuary's Economic Experience Analysis and Economic Assumptions
- Consulting Actuary's Actuarial Valuation as of June 30, 2007
- Consulting Actuary's recommended Credited Interest Rate of 5% for fiscal year 2007-08
- Consulting Actuary's recommended Employer Contribution Rate of 4.99% for fiscal year 2008-09
- Authorized Consulting Actuary to Conduct a Cost Analysis of Proposed Benefit Enhancement for June 2008 Ballot
- Supplemental COLA Report from Consulting Actuary
- Basic COLA for Retirees subject to Charter Section A8.526, Effective July 1, 2008

Additionally the Retirement Board conducted its five year request for proposal for actuarial services. At the June 10, 2008 meeting, the Board selected Cheiron to serve as consulting actuary effective July 1, 2008. The Board recognized the seventeen years of service by Towers Perrin, the outgoing consulting actuarial firm.

Governance

The Board oversees routine as well as complex matters, in accordance with Board policies which impact the overall administration and operations of the Retirement System. For fiscal year 2007-08, the Board reviewed, approved, and/or adopted the following oversight matters:

- SFERS Business Plan for 2008-09
- SFERS Budget for Fiscal Year 2008-09
- Reconsidered Board Policy on Qualification for Dependent Adult Child or Dependent Parent Continuation Benefits Adopted May 8, 2007

- Staff Recommendation to Amend the Administrative Code Sections Governing the Purchase of Public Service
- Retention of Northern Trust as Global Custodian
- Executive and Investment Division Structures and Executive and Investment Staff Compensation
- Semi Annual Review of Disability Application Process
- Board Governance Manual

Education

The Retirement Board strives to improve competency and enhance understanding of pension investments and overall Board governance through education. During fiscal year 2007-08, members of the Board attended conferences, roundtables, symposiums and other like forums offering diverse topics such as risk and reward (in investing), principles of pension management, presenting data and information, and investing in Asia, to name a few. The Board also participated in its first-ever Board Retreat.

At the Retreat, members of the Board and SFERS senior staff listened to presentations about investment legal risks and investing in infrastructure, as well as discussed the effectiveness of the Board's decision-making processes and characteristics of an effective Executive Director. Additionally, during the fiscal year, members of the Board participated in educational opportunities presented by SFERS Investment staff—Asset Liability Modeling Process and by the City Attorney's Office—Gift Ordinance Regulations and Statement of Incompatible Activities.

Litigation/Legislation

The Retirement System Senior Administration Staff and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes that could impact the SFERS. There were no significant litigation issues during fiscal year 2007-08; however, two voter approved charter amendments affected the SFERS.

- Deferred Retirement Option Program (DROP) for eligible members of the Police Department, effective July 1, 2008.
- Proposition B, providing an enhanced retirement benefit and COLA provision for miscellaneous members, effective January 11, 2009

Requests for Proposals (RFP)

Running a complex business such as the Retirement System requires collaboration between SFERS staff and a network of expert professional consultants, primarily for investments. The Retirement System gains access to these consultants by issuing RFPs. During fiscal year 2007-08, the Board issued, reviewed and approved the following RFPs:

- Enhanced Index Equity Management Services
- Risk Management System
- Global Real Estate Securities Manager(s)
- Alternative Investment Consultant
- Global Custody Services
- Consulting Actuary Services

457(b) SFDPC

The Retirement System offers active members an opportunity to acquire additional retirement savings intended to supplement pension benefits with voluntary contributions to a Deferred Compensation 457(b) Plan. The 457(b) Plan is administered by a third party administrator (ING Life Insurance and Annuity Company), and is managed by the SFERS Deferred Compensation Manager. The Deferred Compensation Manager continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement. Accordingly, the staff submits to the Board, scheduled reports provided by Angeles Investment Advisors, and an Annual Plan Review provided by ING, regarding performance and administration of the 457(b) Deferred Compensation Plan.

Additionally, during fiscal year 2007-08, the Board reviewed and approved a number of matters for the purpose of improving performance and administration of the SFDPC:

- Selected Segal Advisors as Consultant to Evaluate Plan Structure and Administration of the San Francisco 457(b) Deferred Compensation Plan (SFDPC)
- LSV Conservative Value Equity Fund as the 457(b) SFDPC Large Cap Value Equity Portfolio
- RFP for Third Party Administration and Stable Value Portfolio Manager of the SFDPC

From the Executive Director

As the Executive Director of the San Francisco Employees' Retirement System, I am pleased to share with you the Retirement System's achievements over the last fiscal year.

Outlook

The Retirement System remains in good health. As measured on July 1, 2007, our pension portfolio continues to be fully funded at 110%. That means, for every dollar promised to pay your benefits, we have one dollar ten cents (\$1.10) available to pay those benefits.

The investment portfolio returned -3.31% for the fiscal year, a reflection of a challenging market. Despite market woes, the Plan paid \$690 million in benefits over the fiscal year. However, the challenges we faced with the market this year exposed broader issues: In order to sustain our growing asset pool and sophisticated allocation structure, we will need to expand our Investments and Operations staff. The additional staff will help us achieve the investment performance and the service levels you have come to expect from SFERS.

2007-08 In Review

In fiscal year 2007-08, the Retirement System's staff implemented processes to support a new benefit program, the Deferred Retirement Option Program (DROP) for eligible members of the San Francisco Police Department, and a benefits enhancement for miscellaneous members.

The DROP, established by the voters on the February 5th ballot, was effective July 1, 2008. A dedicated Member Services team has been educating and enrolling all interested and eligible members.

A benefit enhancement for miscellaneous members was established by the voters on the June 3rd ballot. The enhancement changes the age factor for members 60 years and older who retire on or after January 11, 2009, and changes the way in which COLAs are calculated.

In May, the Retirement System selected a new consulting actuary, Cheiron, after a long relationship with Towers Perrin. We are very confident that Cheiron will more than meet the Retirement System's needs in providing the type of actuarial services most suitable to our benefit structure.

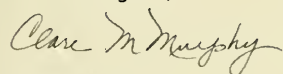
We hired a Communications Manager who is working to improve our communications tools such as our newsletters and web content to keep you better connected with us at the Retirement System.

Moving Forward

We continue to seek ways of streamlining processes and implementing more efficient systems for conducting our business. For example, our Administration staff is finalizing a new disability retirement case management system—intended to shorten the time it takes to process these types of retirements. Our management team is working on an emergency preparedness plan to ensure staff's safety and to minimize impact to members in the event of a disaster. Additionally, Communications is redesigning the SFERS website to provide a more useful communication and information tool for our members.

I look forward to providing our members with the exceptional service and benefits they have come to expect, as we forge new ways to serve our great members.

Warmest Regards,



Clare M. Murphy

SFERS Senior Staff

Administration:

Clare M. Murphy
Executive Director

Norm Nickens
Executive Assistant to the Executive Director

Jay Huish
Deputy Director

Maria Newport
Retirement Administrator

Jim Burruel
Finance Manager

Dianne Owens-Lewis
Human Resources Manager

Alison M. Johnson
Communications Manager

Craig Lee
Information Systems Manager

Carol Cypert, CRA, CRC
Deferred Compensation Manager

Clare M. Murphy
Acting Actuary

Legal:

Caryn Bortnick
Deputy City Attorney

Investments:

David E. Kushner, CFA
Deputy Director for Investments

Robert Shaw
Senior Investment Officer
Equities

Donald Holcher
Senior Investment Officer
Real Estate

Richard Piket
Senior Investment Officer
Fixed Income

Glen Schwartz
Senior Investment Officer
Alternative Investments

Administration



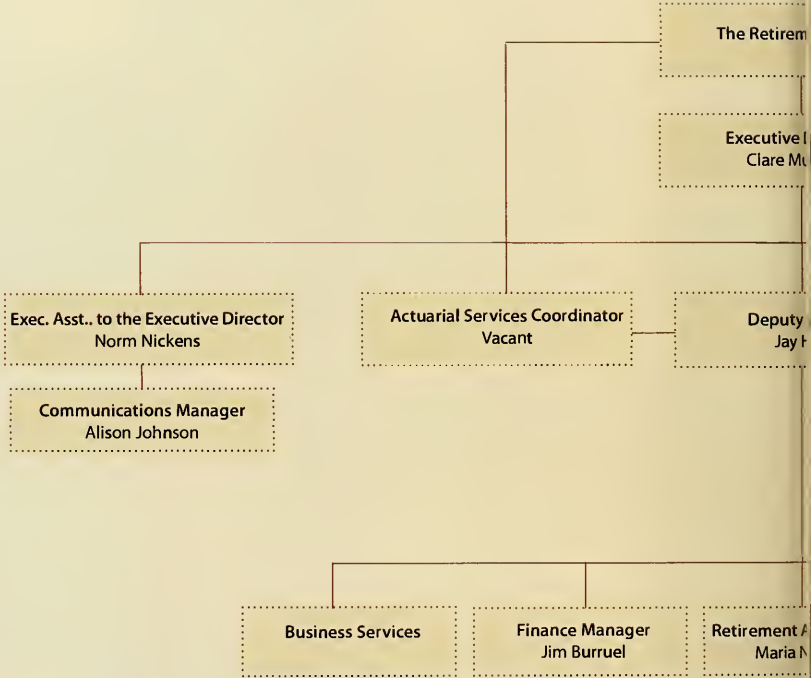
Front Row: Alison Johnson, Communications Manager; Craig Lee, Information Systems Manager; Clare Murphy, Executive Director; Norm Nickens, Executive Assistant to the Executive Director; and Dianne Owens-Lewis, Human Resources Manager. Back Row: Jim Burrue, Finance Manager; Jay Huish, Deputy Director; Maria Newport, Retirement Administrator; and Carol Cypert, Deferred Compensation Manager

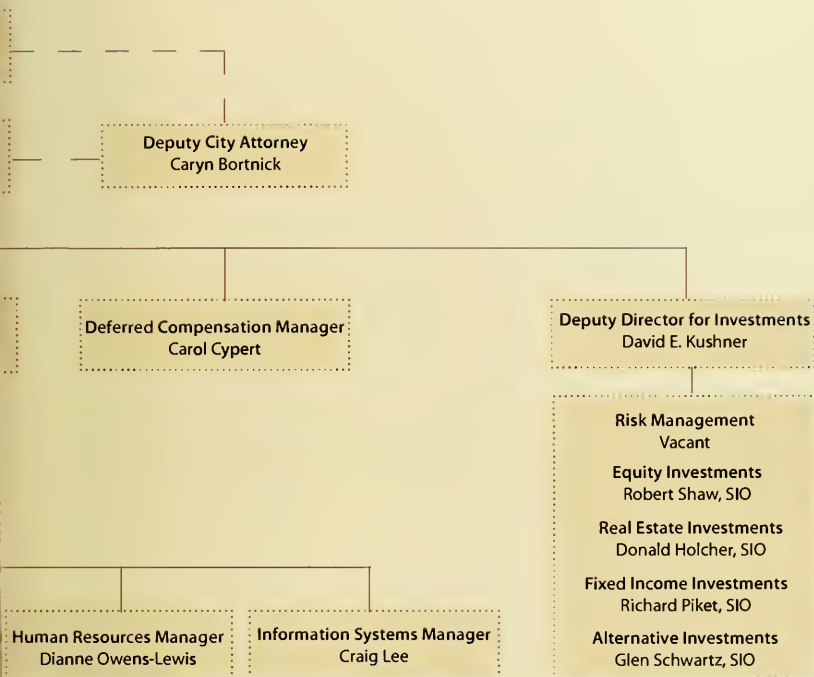
Investments



Left to right: Glen Schwartz, SIO Alternative Investments; Robert Shaw, SIO Equities; David Kushner, Deputy Director for Investments; Richard Piket, SIO Fixed Income; and Don Holcher, SIO Real Estate

SFERS Organizational Chart







Investments

Dedicated to securing, protecting and prudently investing the pension trust assets

Deputy Director for Investments Report

Summary

The U.S. economy encountered significant challenges in 2008 and the economic outlook for the year ahead is uncertain. The headwinds of the housing and financial market crisis and credit crunch combined with elevated food and energy prices have translated into sluggish economic growth and a worrisome inflationary situation.

For the Fiscal Year 2008, the System posted a -3.13% return versus -2.77% from the Policy Benchmark. All asset classes except Alternatives trailed their respective indices, with the greatest underperformance coming from the fixed income portfolio, which suffered from its more aggressive posture.

SFERS' portfolio ranks well against category peers (Public Funds with assets in excess of \$1 billion). The System is well above the median across all periods, and places in the top quartile of public funds over the trailing three and five years.

SFERS' assets were within allowable asset allocation ranges at the close of the fiscal year. SFERS' portfolio was modestly underweight U.S. Equity (26.3% vs. 28%), while equity exposure abroad was slightly greater than its target (20.7% vs. 20.0%). Fixed Income matched its target at 30%. Alternatives finished the fiscal year at 10.6% of total assets (versus 12.0% target) and Real Estate was slightly overweight (11.7% vs. 10.0% for the target).

David E. Kushner, CFA

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. However, the Retirement System's investment objective has essentially remained the same: to maximize long-term rates of return on investments within prudent guidelines.

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in October 2008:

Asset Class	Policy Target	Policy Range	Actual
US Equity	26%	22-30%	26.3%
International Equity	23%	20-26%	20.7%
Global Fixed Income	25%	22-28%	30.0%
Alternative Assets	14%	10-18%	10.6%
Real Estate	12%	9-15%	11.7%
Cash	0%	0-1%	0.7%

Investment Performance Highlights for Fiscal Year Ended June 30, 2008

The Retirement System investment portfolio returned -3.13% for the fiscal year ended June 30, 2008, underperforming the policy benchmark return of -2.77%. Overall, Alternative Investments and Real Estate were the stronger performers, while Equities (both domestic and international) posted negative returns and Fixed Income narrowly closed positive under the mortgage meltdown and resulting credit crunch. Skilled staff and experienced investment managers minimized losses and added value to the portfolio by taking advantage of market opportunities, especially in the alternative investments arena, to maneuver the portfolio through a turbulent market during the fiscal year.

Equity

Returns for the combined equity portfolio were -11.49% for the fiscal year, underperforming the total equity policy benchmark return of -10.11% by 138 basis points. The US equity portfolio return was -13.53%, underperforming the Russell 3000 benchmark return of -12.69% by 84 basis points. The International equity portfolio was also down for the year, returning -8.89% underperforming the benchmark return of -6.64% by 225 basis points.

2007-08 Equity Commitments/Enhancements:

- Approved Revised Investment Guidelines for Mazama Capital (SMID Growth Equity)
- Approved Quantitative Management Associates (QMA) as Enhanced Index Equity Manager
- Approved Investment Guidelines for QMA and INTECH (Large Cap Growth Equity Manager)
- Approved Amended Investment Guidelines for William Blair (International Equity) and Mondrian (Emerging Markets Equity)

Fixed Income

The Fixed Income Portfolio had a flat performance for the Fiscal Year ending June 30, 2008 posting a 0.53% return. While the Core, Core Plus and Emerging Markets Debt managers earned solid positive returns, the domestic high yield managers posted negative returns due to a major credit crisis which began in the first half of calendar 2007.

Also during the year, in accordance with staff and consultant recommendation, the Retirement Board approved amended investment guidelines for the high yield CMBS Managers Hyperion and Pyramis Investment Advisors. The Board also reviewed and approved investment guidelines for Manager Cash (short-term investment account), the Securities Lending Collateral Investment Account, and the Dollar Roll Investment Account.

2007-08 Fixed Income Commitments:

- TCW Special Mortgage Credit Fund (Fixed Income Opportunistic Fund), \$25 million
- Western Asset Management Levered Loan Opportunity Fund, \$25 million
- ABRY Advanced Securities Fund, LP (Fixed Income Opportunistic Fund), \$25 million
- Fidelity Real Estate Opportunistic Income Fund, LP, \$25 million

Alternative Investments

The Retirement Board approved an amendment to the annual investment plan for the Alternative Investment Program approved in 2007, recommending an increased investment pace of approximately \$525 million for calendar year 2008. The new commitments were invested in a diversified set of private equity limited partnerships sponsored by investment management firms currently managing money for SFERS, or newly selected investment management firms with strategies aimed at enhancing the portfolio. At fiscal year-end, the market value for alternative investments was \$1.7 billion, or 10.6% of the total fund assets.

The alternative investment portfolio returned 18.91% for the fiscal year. Over a ten-year period, the portfolio earned an 11.44% annualized return, exceeding the performance benchmark (the S&P 500 + 5%) by 306 basis points over a rolling ten-year period.

2007-08 Alternative Investments Commitments:

Buy Out:

- Capital International Private Equity Fund V, \$20 million
- Friedman Fleischer and Lowe Fund III, LP, \$40 million
- Oak Hill Capital Partners III, LP, \$40 million
- GenNx360 Capital Partners, LP, \$10 million
- Capvis Equity III, LP, \$20 million
- ABRY Partners VI, LP, \$40 million
- Actis Emerging Markets 3, LP, \$20 million
- Advent International GPE VI, LP, €20 million
- Apollo VII, LP, \$30 million
- TPG VI, LP, \$30 million

- Madison Dearborn VI, LP, \$30 million
- Riverstone/Carlyle Global Energy and Power IV, LP, \$30 million
- Western Presidio Capital VI, LP, \$30 million
- First Reserve Fund XII, LP, \$40 million

Venture:

- Tamir Fishman Ventures II, LP and Tamir Fishman Ventures III, LP, \$15 million
- Technology Crossover Ventures VII, LP, \$25 million
- Canaan VIII, LP, \$20 million
- Clarus Lifesciences II, LP, \$10 million
- Summit Partners Europe Private Equity Fund, €10 million

Special Situations:

- Squadron Asia Pacific, \$15 million
- Sankaty Credit Opportunities Fund IV, L.P., \$30 million

Additionally, on April 8, 2008, the Retirement Board approved the retention of Portfolio Advisors as the consultant for alternative investments.

Real Estate

As with other SFERS investments, the Real Estate portfolio is a reflection of the changes in the global credit markets. For the long-term, SFERS continues to find real estate an attractive asset class which continues to provide diversification from other asset classes such as equities, fixed income and alternative investments. In addition, it offers stable and attractive risk-adjusted performance. Historically, during higher inflationary periods, investors turn to and benefit from “hard assets” such as real estate.

In 2007, the Retirement Board approved an allocation of up to \$150 million for a global real estate securities search. In February 2008, the Board approved European Investors, Inc. and ING Clarion Real Estate Securities for Global Real Estate Securities Management Services. This allocation will increase the percentage of the real estate portfolio invested internationally.

For fiscal year 2008-09, the Retirement Board approved the Annual Real Estate Investment Plan and Strategic Plan for Real Estate. The Plans provide for a target allocation of new funds of \$200 million. For the first half of calendar 2008, the Retirement Board has authorized \$103 million in new funding for SFERS’ real estate portfolio.

At the end of the fiscal year, the Retirement Board increased the target allocation to Real Estate to 12%, with an allowable range of 8% - 13% of total plan assets. At fiscal year-end, SFERS’ real estate portfolio was \$1.717 billion in equity (before debt and unfunded commitments) or 10.7% of the total fund assets.

SFERS’ real estate consultant reports that the real estate portfolio provided an 11.49% net return for the trailing one-year period ending June 30, 2008. For the three-year and five-year periods, the net returns were 16.44% and 14.99% respectively. The SFERS uses the National Property Index (NPI) plus 1.5% as reported by Pension Real Estate Association (the industry’s association of institutional investors) for benchmarking real estate returns. For the five-year period ended June 30, 2008, the NPI return (on a gross basis) plus 1.5% was 16.57%.

Under current conditions in the economy, tighter credit and a slow down in real estate transactions, SFERS will delay investing new capital except for exceptional and opportunistic situations where SFERS capitalizes on taking good assets from financially distressed sellers.

Furthermore, in light of the global credit crisis and with the slow down in real estate transaction volume, SFERS will look for its third party managers to focus on asset management issues such as leasing and maintaining the competitive position of the properties to ensure that when economic conditions improve, the real estate portfolio will be well positioned for the future benefits, objectives and goals of SFERS real estate investment program.

2007-08 Real Estate Commitments:

- CIM Urban REIT Fund III, \$50 million
- Five Arrows Realty Securities V, LP, \$40 million

As of June 30, 2008, approximately 14% of SFERS trust assets were managed internally, including \$702 million in domestic bonds and \$1.5 billion in domestic equities. The balance of the portfolio was managed externally by investment firms that specialize in specific asset classes including international and domestic equities, global fixed income, alternative investments and real estate.

San Francisco Employees' Retirement System

Summary of Investments¹

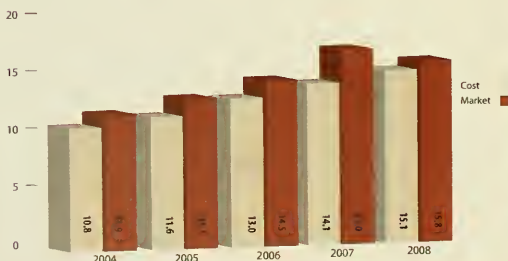
at June 30, 2008

at June 30, 2007

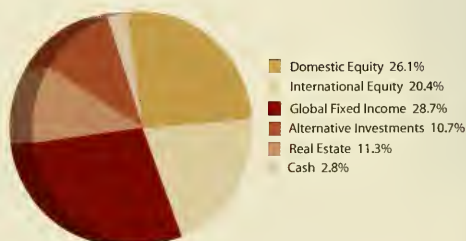
Asset Class	Market Value (\$000)	% of Portfolio	Market Value (\$000)	% of Portfolio
Equities				
U.S. Equities	4,138,513	26.1%	4,958,204	29.2%
International Equities	3,226,693	20.4%	3,877,612	22.9%
Total Equities	\$7,365,206	46.5%	\$8,835,816	52.1%
Global Fixed Income	4,540,996	28.7%	\$4,254,684	25.1%
Alternative Investments				
Buyout	850,211	5.4%	766,806	4.5%
Venture	554,999	3.5%	577,344	3.4%
Special Situations	281,717	1.8%	260,503	1.5%
Total Alternative Investments	\$1,686,927	10.7%	\$1,604,653	9.5%
Real Estate	\$1,788,561	11.3%	\$1,698,685	10.0%
Cash	\$450,831	2.8%	\$558,205	3.3%
Total Investment Portfolio	\$15,832,521	100.0%	\$16,952,043	100.0%

Source: Williams, Adley & Company, LLP

Pension Fund Net Assets
as of June 30, 2008



Asset Allocation
as of June 30, 2008



1. Cash includes cash "set aside" for payment of benefits and expenses, and transactions in progress.

For the Fiscal year ended June 30, 2008, the Investment portfolio of the Retirement System suffered from continued economic malaise amid the "credit crisis" ending the fiscal year down -3.13%. On a broad asset class basis, Alternative Investments and Real Estate added the most value for the year, returning 18.91% and 11.49%, respectively. Total Equities finished down -11.49% and Fixed Income returns, while modestly positive, also showed vulnerability to the "credit crunch", with the total Fixed Income Portfolio returning 0.53% for the year.

Investment Portfolio Performance vs. Benchmark Returns

Annualized Returns for the Periods Ending 6/30/08

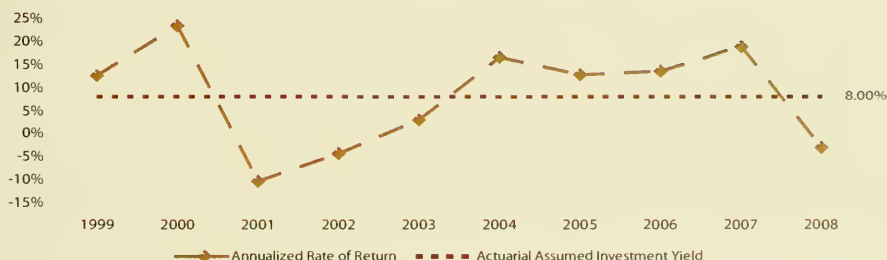
(Net of fees and expenses)

Asset Class	1-Year	3-Years	5-Years
Domestic Equity	-13.53	3.79	7.94
<i>Russell 3000</i>	<i>-12.69</i>	<i>4.73</i>	<i>8.37</i>
International Equity	-8.89	14.56	18.90
<i>MSCI ACWI Free ex US</i>	<i>-6.64</i>	<i>15.67</i>	<i>18.94</i>
Global Fixed Income	0.53	3.26	4.71
<i>Lehman Global</i>	<i>6.22</i>	<i>4.01</i>	<i>4.07</i>
Real Estate¹	11.49	16.44	14.99
<i>Gross NPI + 1.5%</i>	<i>15.08</i>	<i>18.25</i>	<i>16.57</i>
Alternative Assets	18.91	29.00	26.45
<i>Through 13/31/06: S&P + 6%; Beginning 1/1/07: S&P + 5%</i>	<i>-8.12</i>	<i>9.41</i>	<i>12.58</i>
Total Fund	-3.13	9.28	11.32
Weighted Policy Benchmark	-2.77	8.53	10.24

Source: The Northern Trust Company

Ten-Year Annualized Rates of Return

Periods Ending June 30



1. Real Estate returns calculated by The Townsend Group and are net of fees and expenses



Finance

Oversees the System's financial position and reports operating results

Overview

The Finance Division oversees trust accounting as well as provides management with key financial information to facilitate planning, control, and overall System oversight. The Finance Division also prepares and reports the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Disclosures as required by Governmental Accounting Standards Board (GASB) are included in the financial statements and other required supplemental reports.

In addition to financial oversight, the Finance Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the Employees' Retirement System is adequately funded at all times

The accounting and financial reporting functions are divided into several major activities:

- Investments Accounting
- Member and Employer Contributions Accounting
- Benefits Payment Accounting
- Employees' Deferred Compensation Accounting
- Budget and Appropriations Control
- General Ledger and Financial Reporting

The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 28 and 29) for fiscal years ended June 30, 2008 and 2007, demonstrate the financial condition of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2008.

Readers who have questions regarding the financial information provided in this report are encouraged to contact SFERS and request the full set of audited Financial Statements and Supplemental Schedule as prepared by the City's independent auditors, Williams, Adley & Company, LLP.

Statements of Plan Net Assets

Years Ended June 30, 2008 and 2007

Assets	2008 (\$000)	2007 (\$000)
Deposits	\$ 77,554	\$ 77,027
Contributions Receivable – Members	7,635	4,009
Contributions Receivable – City and County	5,826	7,680
Investment Income Receivable:		
Interest	39,844	36,538
Dividends	11,297	11,296
Securities lending Income	3,364	492
Fixed Coupon Dollar Repurchase Agreement Income	1,381	1,923
Receivables from Brokers, General Partners, Others	330,883	853,921
Investments at Fair Value:		
Short-Term Investments	879,724	1,426,876
Debt Securities:		
U. S. Government Securities	1,358,339	2,021,509
Other Debt Securities	3,182,657	2,233,174
Equity Securities	7,365,206	8,835,816
Real Estate	1,788,561	1,698,685
Venture Capital	1,686,927	1,604,653
Forward Currency Contracts, Net	-	10,466
Investments in Lending Agents' Short-Term Investment Pool	1,567,442	2,220,679
Total Investments	\$ 17,828,856	\$ 20,051,858
Total Assets	\$ 18,306,640	\$ 21,044,744
Liabilities	2008	2007
Payable to Brokers	561,394	1,390,144
Obligations Under Fixed Coupon Dollar Repurchase Agreements	322,063	468,164
Foreign Currency Contracts, Net	504	-
Other Liabilities	22,716	13,714
Payable to Borrowers of Securities	1,567,442	2,220,679
Total Liabilities	2,474,119	4,092,701
Net Assets Held in Trust For Pension Benefits:	\$ 15,832,521	\$ 16,952,043

Source: Williams, Adley & Company, LLP

Statements of Changes in Plan Net Assets

Years Ended June 30, 2008 and 2007

Additions		2008 (\$000)	2007 (\$000)
Member Contributions:			
Miscellaneous		\$ 156,203	\$ 148,453
Police		16,823	15,491
Firefighter		12,097	11,803
Total Member Contributions		185,123	175,747
City and County Contributions:			
Miscellaneous		111,548	110,317
Police		13,114	12,602
Firefighter		9,398	9,682
Total City & County Contributions		134,060	132,601
Investment Income (Expenses):			
Interest		254,737	239,088
Dividends		183,940	167,408
Net Appreciation (Depreciation) in Fair Value of Investments		(1,103,894)	2,424,598
Securities Lending Income		54,550	106,208
Fixed Coupon Dollar Repurchase Agreement Income		8,638	27,050
Investment Expenses		(51,079)	(44,009)
Securities Lending Borrower Rebates and Expenses		(69,352)	(98,375)
Fixed Coupon Dollar Repurchase Agreement Finance Charges and Expenses		(12,972)	(25,129)
Investment Gain/(Loss), Net		(735,432)	2,796,839
Total Additions/(Deductions)		\$ (416,249)	\$ 3,105,187
Deductions		2008	2007
Benefits		682,230	631,159
Refunds of Contributions		8,449	7,645
Administrative Expenses		12,594	11,362
Total Deductions		\$ 703,273	\$ 650,166
Net Increase/(Decrease)		\$ (1,119,522)	\$ 2,455,021
Net Assets Held in Trust For Pension Benefits:			
Beginning of Year		\$ 16,952,043	\$ 14,497,022
End of Year		\$ 15,832,521	\$ 16,952,043

Source: Williams, Adley & Company, LLP

Pension Fund Investment Income

Fiscal Year 2007-08

Income	Realized Gain/Loss	Unrealized Gain/Loss	Total
Interest Earned			\$ 254,736,769
Dividends Earned			183,940,184
Securities Lending Income-Net			(14,802,019)
Dollar Roll Income – Net			(4,334,002)
Recaptured Commission Income – Net			(261,269)
Real Estate Income			67,769,565
Alternative Investment Income			34,354,180
Investment Expenses			(50,595,830)
Total Income¹			\$ 470,807,578
Net Appreciation in Fair Values			
Short-Term Securities	(33,924,497)	\$4,975,276	(28,949,221)
Equities	(453,388,305)	(1,642,191,733)	(2,095,580,038)
Debt Securities	(57,899,952)	(265,762,992)	(323,662,944)
Real Estate	(19,722,697)	43,312,325	23,589,628
Venture Capital	(178,464,653)	(102,844,508)	(281,309,161)
Other Assets	(10,346,175)	2,522,488	(7,823,687)
Total Net Appreciation	\$(753,746,279)	\$(1,959,989,144)	\$(2,713,735,423)
Total Income (Including Net Appreciation):			\$ (2,242,927,845)

Source: Williams, Adley & Company, LLP

1. Total Income excludes employee and employer contributions.

Pension Fund Disbursements

Plan Year 2007-08

Payments/Expenses	Amount
Service Retirement Payments	\$ 500,397,989
Disability Retirement Payments	132,134,373
Proposition C – Cost of Living Adjustment	37,977,595
Death Allowance Payments	3,889,719
Death Benefits	2,783,617
Normal Contributions Paid as Death Benefit	3,538,505
Retired Annuitant Rolls (Option 1 Death Benefit)	1,508,422
Refunds of Contributions	8,448,995
Administrative Expenses: Retirement Services/Administration	12,594,680
Total Payments & Expenses	\$ 703,273,895

Source: Williams, Adley & Company, LLP

3-Year Comparison of Contributions

Employer (City & County) Contributions

Member Plan	2007-08	2006-07	2005-06
Miscellaneous Plan	\$ 111,548,066	\$ 110,317,193	\$ 104,064,428
Firefighter Plan	9,398,037	9,681,960	9,696,305
Police Plan	13,113,815	12,602,415	12,772,942
Total	\$ 134,059,918	\$ 132,601,568	\$ 126,533,675

Employee Contributions

Member Plan	2007-08	2006-07	2005-06
Miscellaneous Plan	\$ 156,203,410	\$ 148,452,563	\$ 136,664,886
Firefighter Plan	12,096,680	11,802,825	11,313,204
Police Plan	16,822,537	15,491,371	14,715,115
Total	\$ 185,122,627	\$ 175,746,759	\$ 162,693,205

3-Year Comparison of Actual Administrative Expenditures

Retirement Services & Administration Divisions

Expenditure	2007-08	2006-07	2005-06
Personnel Services	\$ 7,194,372	\$ 6,014,410	\$ 5,149,655
Equipment Purchase	39,323	0	29,023
Materials and Supplies	220,590	119,260	146,280
Services of Other Departments	3,470,726	3,739,136	3,956,423
Other Services	1,669,669	1,489,065	1,939,980
Total	\$ 12,594,680	\$ 11,361,871	\$ 11,221,361

Investment Division

Expenditure	2007-08	2006-07	2005-06
Personnel Services	\$ 1,608,135	\$ 1,589,905	\$ 1,533,095
Equipment Purchase	48,186	34,069	6,622
Materials and Supplies	9,255	16,397	6,032
Services of Other Departments	409,449	368,399	408,353
Other Services	48,444,904	41,435,148	35,499,830
Total	\$ 50,519,929	\$ 43,443,918	\$ 37,453,932



Retirement Services

Providing members with information and education about retirement benefits and services

Overview

SFERS employs a dedicated team of knowledgeable professionals who offer invaluable services to our members and their beneficiaries. Under the direction of the Deputy Director, the Retirement Services Division conducts new member enrollments, benefits calculations, active and retired member counseling, pre-retirement education, as well as oversees member communications, retiree payroll and tax reporting, termination benefits and death payments.

SFERS Plan Membership

The Retirement System administers six benefit structures for the City and County of San Francisco's pension plan according to employee group: Police New Plan and Old Plan, Firefighter New Plan and Old Plan, and Miscellaneous New Plan and Old Plan. Generally, employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans, whereas employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans.

While the November 1976 Charter amendments established the New Plans, New Plan benefits currently in effect for Miscellaneous members were established by Charter amendment passed in November 2000, and New Plan benefits currently in effect for Safety members were established by Charter amendment passed in November 2002. A description of each Plan by Charter section is found on page 34.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

Beginning on September 1, 1995, employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during any 12-month period, become eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, members of the Safety Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while members of the Safety New Plans automatically became members of SFERS under San Francisco Charter Sections A8.598 and A8.596 under provisions of Proposition H passed by the voters in November 2002.

Members of the Miscellaneous Plan are also members of the Social Security System, beginning September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement. This reduced contribution provision is no longer available to SFERS members.

Additionally, employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems. For example, deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; full-time school teachers hired after June 30, 1972 are members of the State Teachers Retirement System.

SFERS Plan Membership Charter References

Charter Section	Employee Group
S.F. Charter Section A8.509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8.587	Miscellaneous employees who became members on or after November 2, 1976
S.F. Charter Section A8.559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Sections A8.559-14 and A8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8.595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.585-14 and A8.588	Firefighters who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8.596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

SFERS Plan Membership Summary

SFERS Active Membership falls within three categories:

1. Active Members who are currently on City and County and other qualified employers Payroll
2. Vested Members who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
3. Reciprocal Members who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2008, there were 31,508 members of the Miscellaneous Plans, 2,312 members of the Police Plans and 1,576 members of the Firefighter Plans.

SFERS Active Membership

as of June 30, 2008

Plan Membership Group	Active	Vested	Reciprocal	Total
Old Miscellaneous Plan Members Before November 2, 1976	598	48	6	652
New Miscellaneous Plan Members on or After November 2, 1976	26,280	3,761	815	30,856
Old Police Plan Members Before November 2, 1976	37	0	0	37
New Police Plan Members on or After November 2, 1976	2,206	42	27	2,275
Old Firefighter Plan Members Before November 2, 1976	17	0	0	17
New Firefighter Plan Members on or After November 2, 1976	1,512	26	21	1,559
Total	30,650	3,877	869	35,396

Contribution Rates

Employer (City and County) Contribution Rates¹ *as a Percentage of Covered Payroll*

Covered Plan Year	Police	Firefighter	Miscellaneous
1998-2004	0%	0%	0%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%
2006-2007	6.24%	6.24%	6.24%
2007-2008	5.91%	5.91%	5.91%
2008-2009	4.99%	4.99%	4.99%

Employee Contribution Rates¹ *as a Percentage of Covered Payroll*

Plan Membership Group	Rate of Contribution
Miscellaneous (Old) ²	8.00%
Miscellaneous (New)	7.50%
Police (Old)	7.00%
Police (New)	7.50%
Firefighter (Old)	7.00%
Firefighter (New)	7.50%

1. Contribution Rates are composite rates for Old and New groups.
2. Contributions for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

Retirement Statistics

Plan Year ended June 30, 2008

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2007-08, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2007-08 and 2006-07:

Activity	2007-08	2006-07
Retirement Estimate Requests	1070	1228
Retirement Appointments	1806	1646
Retirement Applications Processed	996	929
Buyback Appointments	1844	1745
Personnel Transactions:	3236	2961
New Members (New Hires)	1728	1457
New Members (1040 Hours Membership)	938	917
Rehires	170	187
Police Recruits	342	315
Fire Recruits	58	85
Pre-Retirement Seminars	9	9
Registered Attendees at Pre-Retirement Seminars	827	931
Mid-Career Retirement Planning Seminars	1	1
Registered Attendees at Mid-Career Seminars	76	79
New Member Retirement Planning Seminars	0	3
Registered Attendees at New Member Seminars	0	148

The Retirement Services Division sponsored and conducted nine pre-retirement seminars during Plan Year 2007-08. These seminars provided individualized benefits counseling for 827 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Fire Department, the Unified School District, the Community College District, Human Services Department and the Public Utilities Commission (including Hetch Hetchy).

New Retirements

Effective During Plan Year ended June 30, 2008

Member Group	Service	Vesting	Industrial Disability	Ordinary Disability	Total
Miscellaneous	468	187	N/A	17	672
Police	55	5	6	0	66
Firefighter	43	0	2	0	45
Totals	566¹	192	8	17	783

The total number of new retirements effective during Plan Year 2007-08 was 29.4% lower than retirements in Plan Year 2006-07. Service retirements represent 72.3% of the total of new retirements processed.

Miscellaneous retirements represented 85.8% of the total retirements processed in Plan Year 2007-08, relatively equal to 85.4% in Plan Year 2006-07.

Police retirements represented 8.4% of the total retirements processed in Plan Year 2007-08, an increase from 6.0% in Plan Year 2006-07.

Firefighter retirements represented 5.8% of the total retirements processed in Plan Year 2007-08, a decrease from 8.6% in Plan Year 2006-07.

1. Total service retirements in Plan Year 2007-08 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

Total Retirement Allowances

*Retired Members and Survivor Continuation Benefits
as of June 30, 2008*

Member Category	Service Retirements	Disability Retirements ¹	Death in Line of Duty	Total
Miscellaneous	15,033	1,907	N/A	16,940
Member	12,597	1,385	N/A	13,982
Continuation	2,436	522	N/A	2,958
Police	1,319	780	42	2,141
Member	972	500	-	1,472
Continuation	347	280	42	669
Firefighter	966	965	36	1,967
Member	694	696	-	1,390
Continuation	272	269	36	577
Total	17,318	3,652	78	21,048

Monthly Retirement Benefits Payable

*Retired Members and Survivor Continuation Benefits
as of June 30, 2008*

Member Category	Service Retirements	Disability Retirements ¹	Death in Line of Duty	Total
Miscellaneous	\$32,674,307	\$3,013,273	N/A	\$35,687,580
Police	6,977,013	3,321,005	179,015	10,477,033
Firefighter	5,677,221	5,249,678	166,427	11,093,326
Total	\$45,328,541	\$11,583,956	\$345,442	\$57,257,939

1. Includes ordinary disability (Miscellaneous, Police and Fire) and industrial disability (Police and Fire).



San Francisco Deferred Compensation Plan

Providing members with opportunities to maximize retirement savings

San Francisco Deferred Compensation Plan (SFDCP) 457(b) Plan Overview

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan adopted in 1979, provides participants a method of deferring from current taxation part of their salary during employment, for distribution after retirement or upon separation from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The Plan offers a diverse selection of 19 core investment funds including access to a self-directed brokerage option. During the past year the 457(b) Deferred Compensation Plan grew in assets and in number of participants.

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator, currently ING Life Insurance and Annuity Company. The Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposal, SFDCP News, and review of investment fund assessments.

The table on page 42 provides detailed information about the 19 core investment funds that make up the City's 457(b) Deferred Compensation Plan for Fiscal Year 2007-08.

San Francisco Deferred Compensation Plan

Fund Values as of 06/30/08

Fund Name	Total Assets	Percent of Total Assets
Ameritrade - Self Directed Brokerage Account	\$10,888,848.84	0.66%
SFDCP Core Bond Portfolio	54,823,370.61	3.33%
SFDCP International Equity Portfolio	138,460,095.31	8.41%
SFDCP Large Cap Core Equity - Active Portfolio	26,431,979.54	1.60%
SFDCP Large Cap Core Equity - S&P 500 Index	84,388,930.08	5.12%
SFDCP Large Cap Growth Equity Portfolio	245,115,584.51	14.88%
SFDCP Large Cap Social Equity Portfolio	5,375,351.07	0.33%
SFDCP Large Cap Value Equity Portfolio	21,066,052.24	1.28%
SFDCP Long Term Portfolio	74,680,909.59	4.53%
SFDCP Mid Cap Core Equity Portfolio	43,518,475.57	2.64%
SFDCP Mid Cap Growth Equity Portfolio	4,715,483.13	0.29%
SFDCP Mid Cap Value Equity Portfolio	14,250,404.74	0.86%
SFDCP Mid Term Portfolio	205,402,983.52	12.47%
SFDCP Near Term Portfolio	13,731,085.82	0.83%
SFDCP Real Estate Portfolio	12,319,093.87	0.75%
SFDCP Small Cap Core Equity Portfolio	4,413,590.43	0.27%
SFDCP Small Cap Growth Equity Portfolio	14,752,519.55	0.90%
SFDCP Small Cap Value Equity Portfolio	32,713,187.61	1.99%
SFDCP Stable Value Portfolio	640,072,292.77	38.86%
Total Investment Funds At ING	\$1,647,120,238.80	100.00%
Total Annuity Assets At ING	\$1,720,084.13	
Total Annuity Assets At The Hartford	\$21,285,692.68	
Total Plan Assets	\$1,670,126,015.61	

San Francisco Deferred Compensation Plan

Statistics as of 06/30/08

Number of Plan Participants:	23,916
Number of Active Plan Participants:	15,191
Number of Retirees Not Receiving Benefits:	2,917
Retirees Receiving Benefits From Hartford:	463
Retirees Receiving Benefits From ING:	1,121
Total Retiree Assets:	\$346,925,322.74

The Retirement Board reviewed the Investment Performance Analysis provided by Angeles Investment Advisors and appointed the Deferred Compensation Review Committee to evaluate the core investment fund lineup. As a result of the review, the Deferred Compensation Investment Review Committee recommended to the full Retirement Board, a change of the underlying investment option of the SFDCP Large Cap Value Equity Portfolio

Changes to the Core Investment Lineup during Fiscal Year 2007-08:

Previous Investment Fund Underlying Investment Fund Name	⇒	New Investment Fund Underlying Investment Fund Name
SFDCP Large Cap Value Equity Portfolio Lord Abbett Affiliated, Class Y	⇒	SFDCP Large Cap Value Equity Portfolio LSV Conservative Value Equity Fund

As a result of the change to the underlying core investment fund, modifications were also made to the SFDCP Long Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Near Term Portfolio.

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going education, plan enhancements, well performing investment funds, and a competitive fee structure.

Appendix

Actuarial Summary

Assumptions and Method

The main assumptions used to measure the System's funded status to pay future benefits payments were:

Investment Yield	8.00% per year
Wage Inflation	4.50% per year
Price Inflation	3.50% per year
Retiree Mortality	1994 Group Annuity Mortality Table

The actuarial funding methods used are as follows:

- Entry Age Normal Cost method
- Unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- Unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of investment return greater than or less than the actuarial assumed investment return (8%).

Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

Funded Status as of July 1, 2007

Actuarial Liability	13,541,388,000
Actuarial Value of Assets	14,929,287,000
Unfunded Actuarial Liability <Surplus>	<\$1,387,899,000>
Funded Status (assets / liabilities)	110%

Employer (City & County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2007-08 were derived from the July 1, 2006 actuarial valuation:

Normal Cost	16.60%
Unfunded Actuarial Liability	(7.15)%
Remaining Cost of Propositions	3.52%
Employee Contributions	7.51%
Administrative Expenses	0.45%
Board Approved City Contribution Rate	5.91%

Readers who have questions regarding the information provided in this summary may contact SFERS and request the full actuarial report as prepared by SFERS' consulting actuary, Towers Perrin.

Disability Retirement Hearing Report

A member or, legal agent acting on behalf of the member can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System makes a preliminary determination about the claim, and if in order, forwards the application to the City Attorney's office for review. If uncontested by SFERS counsel, the application is referred to the American Arbitration Association or the Office of Administrative Hearings for hearing. All such applications shall be adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2008.

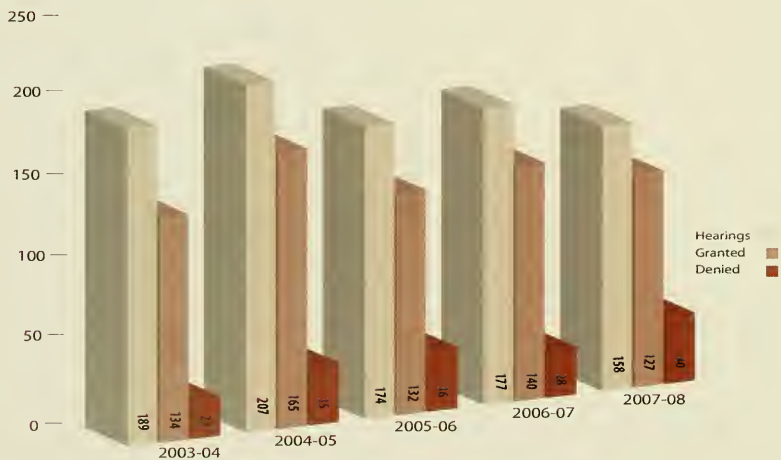
Hearing Officer Report¹

Fiscal Year ended June 30, 2008

Case Category	# Of Hearings	# Granted	# Denied
Industrial Disability Retirements	66	45	19
Ordinary Disability Retirements	82	71	12
Death Benefits	2	2	0
Petitions for Rehearings	0	1	8
PERS	7	7	1
Reinstatements	1	1	0
Total	158	127	40

Hearing Officer Report

5-Year Comparison



1. The Hearing Officer Report represents cases processed in the period July 1, 2007 – June 30, 2008, and may reflect cases pending from prior periods.

The San Francisco Employees' Retirement System Senior Management Team extends sincere gratitude to the entire SFERS staff for their hard work and dedication during the year.

SFERS Staff During Fiscal Year 2007-08

Administration

Timothy Benetti
Mark Cervantes
Cristina Garcia
Kathleen Kissick
Josephine Perez
Mhalou Villamejor

Accounting

Christine Deng
Michael Ma
Raymond Ng
Phil Samson
Ted Wong
James Yung

Business Services

Allan Amber
Emmanuel Anyiam
Ted Davis
Deborah Rio
Diane Souvannavong

Human Resources

Terry Goodson
Edward To

Information Services

An Hoang
Irene Miranda
Vinny To
Gus Vallejo

Investments

Marie Aure-Flieder
Mark Coleman
Daniel Han
Bret Jepsen
David Simpson
Cynthia Wong

Retirement Services

Carolina Acosta
Joseph Almeida
Lois Black
Dorothy Boutte
Debbie Carmel
Imelda Cerezo
Esther Chan
Felix Chan
Allan Chang
Grace Chin
Linda Cochran

Nydia Daniel
Mark Davis
Bonnie Decker
Candace Fan
Mary Fong
Michael Guess
John Ho
Sue Hwang
Loan Le
Iris Lee
Emmett Lew
Rheba Martin
Reggie Neri
Michael Olsen
Margaret Price
Robert Quinonez
Eric Resendez
Diane Terrell
Phuong Tieu
Vicky Tong
Bill Tran
Joanne Vargas
Alyce Wong
Margaret Yapp



SFERS

San Francisco Employees' Retirement System

Providing Opportunities for Retirement Since 1889

City and County of San Francisco Employees' Retirement System

30 Van Ness, Suite 3000 (3rd Floor) • San Francisco, CA • 94102

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SFERS

San Francisco Employees' Retirement System

Providing Retirement and Health Insurance Since 1929


San Francisco Employees' Retirement System Annual Report

For Fiscal Year Ended June 30, 2009

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A sepia-toned photograph of the Golden Gate Bridge in San Francisco. The bridge's massive steel towers and suspension cables are prominent, with the city skyline visible in the background through the bridge's structure. The text is overlaid on the left side of the image.

The City and County of San Francisco Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits to active and retired members of the City

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Introduction

Administering Mandated benefit programs and providing promised benefits



SFERS at a Glance

as of June 30, 2009

Plan Net Assets:	\$11.9 Billion
Funded Ratio:	104% (as of 7/1/08)
Total Benefits Paid:	\$732 Million
Member Contribution Rate: (post 1976 Plans)	7.5%
Employer Contribution Rate:	4.9%

Membership (during fiscal year 2008-09)

Total Membership:	52,119		
Active:	29,910	Retired:	22,209
Miscellaneous:	26,205	Miscellaneous:	18,006
Police:	2,246	Police:	2,175
Fire:	1,459	Fire:	2,028

Retirements (during fiscal year 2008-09)

Total Retirements:	1,122		
Miscellaneous:	992		
Police:	62		
Fire:	68		
Average Service Credit at Service Retirement:	26.1 Years	Average Age at Service Retirement:	62.0 Years
Miscellaneous:	25.8 Years	Miscellaneous:	62.8 Years
Police:	27.7 Years	Police:	56.4 Years
Fire:	29.2 Years	Fire:	56.5 Years

The Retirement System

History

The San Francisco Employees' Retirement System (SFERS) was created by the voters as a part of the San Francisco City Charter established in 1889. The Retirement System and its staff are responsible for administering two employee benefit programs for the City and County of San Francisco:

- San Francisco Employees' Retirement System Pension Plan, a defined benefit plan.
- San Francisco Deferred Compensation Plan, an IRS §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans (see "SFERS Plan Structure" on page 32).

The Pension Plan

The SFERS Pension Plan is a qualified defined benefit plan that provides for the following benefits upon separation: service and disability retirement, refund or vesting allowance, and pre- and post-retirement death benefits to beneficiaries. Defined benefit plans are funded through employee and employer contributions and investment earnings.

The SFERS has reciprocity with CalPERS, the county retirement systems subject to the 1937 Act Retirement Law, and certain other local, independent retirement systems that have a reciprocity contract with CalPERS (listed in the CalPERS Annual Financial Report).

The San Francisco Deferred Compensation Plan (SFDCP)

The San Francisco Deferred Compensation Plan, a voluntary IRS §457(b) Plan adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. The SFDCP offers members an opportunity to supplement pension income during retirement.

Our Members

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

Our Mission

The San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

Administration

The Executive Director and the senior staff team comprise the Administration Division which oversees all other Divisions in the Department – Investments, Finance, Retirement Services, Information Systems, and Human Resources, as well as manages the day-to-day activities of the System including a network of professional consultants. The Administration Division also provides administrative support to the Retirement Board in the preparation of meeting materials such as agendas and supporting documents, minutes and

public notice requirements for the Board's and committee meetings. Additionally, Administrative staff interfaces with Board members in processing travel requests, orientation of new Board members, and facilitation of on-going educational opportunities for Board members.

Besides overseeing Retirement System activities and supporting the Retirement Board, the Administration Division manages and administers Public Records Requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

Applications for disability retirement, and subsequent hearings before an Administrative Law Judge, are processed by the Administration Division as well, in consultation with the Workers Compensation Division of the Department of Human Resources. See the Appendix for the 2008-09 Disability Hearing Report.

Investments

The Retirement System's investment objective is to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division professional staff analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

Finance

The Finance Division is responsible for trust accounting as well as providing financial information to senior management to help facilitate planning, control, and decision-making. Financial reporting includes the preparation of the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Financial statements and required supplemental information presented in this report include disclosures as required by Governmental Accounting Standards Board (GASB).

Actuarial Services

The SFERS funding objective is to provide all promised benefits by adhering to a legally mandated and actuarially prudent funding plan, achieving superior investment returns within prudent risk controls, and minimizing employer contributions to the retirement fund.

The SFERS Retirement Board appoints an Actuary and contracts with a Consulting Actuary firm to provide actuarial expertise to the Retirement Board and Retirement System staff in the development and implementation of new benefit provisions or programs, and in reporting actuarial information related to the benefit structure and funding of the Retirement System. The Actuarial Services Coordinator oversees the SFERS actuarial activities.

The Retirement System pays an array of benefits to members and their survivors—service retirement, disability retirement, and survivor benefits, in addition to contribution plus interest refunds to members who withdraw from the System. These benefits are funded from a combination of employee contributions, City contributions and investment returns earned on those contributions.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of City contributions to the Fund for the next Fiscal Year. This report reflects Plan valuation for the Fiscal Year carried out by the actuarial consulting firm Cheiron, based on data through June 30, 2008.

Retirement Services

The SFERS dedicates extensive resources to serving our members. The Retirement Services Division provides a wide range of services to SFERS members and their beneficiaries including active and retired member counseling, member communications, active and retired member recordkeeping, pre-retirement education, member payroll accounting, retiree payroll and tax reporting, calculation of benefits, termination benefits and death payments.

In fiscal year 2008-09, we enrolled 1,722 new members and added 1,122 new retirees. Our annual benefit payments totaled \$732 million and paid 22,209 retirees, their beneficiaries and exiting members. To help educate our members about their benefits under SFERS, Retirement Services conducted six Pre-Retirement Seminars, one Mid-Career Seminar and one New-Member Seminar for the City's miscellaneous members.

The Retirement Board

The Retirement Board of the San Francisco Employees' Retirement System oversees Plan administration, pension fund investment, member benefits, and actuarial funding. Within the scope of their duties, the Board establishes policies governing the administration, management, and operation of the retirement plans; manages the investment of the Retirement System's assets; reviews and approves benefit determinations; and approves actuarial and economic assumptions used to meet long-term benefit promises of the SFERS Pension Plan. A full description of Board duties is available in the Board Policy Manual. The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business.

The Retirement Board is composed of seven members: three elected by the active and retired members of SFERS; three appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and the President of the Board of Supervisors or his or her designee from among the other members of the Board of Supervisors.

The Retirement Board



President
Joseph D. Driscoll, CFA
 Lieutenant, Fire Department
 Elected Member
 Term Expires: 02/20/2011



Vice President
Brenda Wright
 Senior Vice President
 Regional Manager Community Development
 Wells Fargo & Company
 Appointed Member
 Term Expires: 02/19/2013



Al Casciato
 Captain, Police Department
 Elected Member
 Term Expires: 02/21/2010



Sean Elsbernd
 Member, Board of Supervisors
 Ex-Officio Member
 Term Expires: 01/07/2010



Michael Kim
 Partner
 Rustic Canyon Partners
 Appointed Member
 Term Expires: 02/20/2009



Herb Meiberger, CFA
 Retiree
 Elected Member
 Term Expires: 02/20/2012



Richard H. Peterson, Jr.
 Real Estate Investor
 Appointed Member
 Term Expires: 02/20/2014

A Message From The President

Fiscal year 2008-09 was filled with challenges fueled by chaotic capital markets and statewide budget woes. The information that follows in this report reflects a relatively resilient Retirement System operating in one of history's more volatile financial markets.

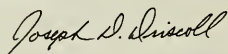
Measured against our mission statement, we have managed our responsibilities and tasks well, yet we know there is still much to do. We are constantly developing systems, processes and new relationships to accomplish our mission now and for generations to come.

Our experienced staff and team of consultants have performed at near record levels to meet our challenges "head-on" and help ensure our members receive the level of service they have come to expect. It is our leadership's diligence and dedication that generates our successes and improvements. It is the people working here at SFERS, serving our members and their beneficiaries who deserve our gratitude. Below is a list of selected actions during the 2008-09 fiscal year.

- A thorough and thoughtful review of our long-term demographic assumptions and global market conditions as part of our regular Economic Experience Analysis, led us to adopt more prudent economic assumptions for the Plan including lowering the assumed rate of return from 8.00% to 7.75%, to better reflect a new market environment operating within tighter risk parameters, as well as increasing the employer contribution rate to 9.49%, to pay for a voter approved benefit enhancement for our retirees.
- Taking advantage of opportunities created from the volatile capital market environment, the Board approved more than \$430 million in new investments, mostly in private market ventures.
- Like most Funds, we suffered losses during this last year; however, we took this as an opportunity to reevaluate the portfolio and acted to rebalance, reallocate and even remove investment relationships in order to revamp our investment policies and bolster the overall investment program. In addition, the Board and staff continue to develop a risk management tool that is intended to position the investment portfolio to optimize real returns within a responsible risk strategy.
- Our Retirement Services team continues to engage our members in educational and informational activities including pre-retirement seminars and member counseling. Detailed statistics about these activities are available on page 35 in this report.
- We expanded our team of information systems professionals to accommodate our increasing need to keep pace with industry technologies.
- The Board approved and transitioned to a new Third Party Administrator and Stable Value Fund Portfolio Manager, Great-West Retirement Services (GWRS) for participants in the SFDCP, offering members an opportunity to invest pre-tax dollars at lower fees so that more of their hard earned dollars are actually invested toward supplementing pension income in retirement.

We will continue to strive to achieve our vision for this great System. As always, meeting the demand for service from our members remains our number one priority.

Sincerely,



Joseph D. Driscoll, President
Retirement Board, City and County of San Francisco

Board Actions During Fiscal Year 2008-09

In fulfilling its duty as fiduciary of the retirement trust assets, and to ensure the health of the investment portfolio with the goal of providing benefits to members into perpetuity, the Retirement Board reviewed, approved, adopted and/or participated in the following actions during the fiscal year ended June 30, 2009:

Investments

In accordance with the annual investment plan, the investment team brings before the Board new investment opportunities with the objectives of enhancing the structure and diversity of the investment portfolio and sustaining long-term performance.

In fiscal year 2008-09, under the authorization of the Board, the investment team committed \$350 million to the Alternative Investments portfolio and \$50 million to the Equities portfolio, as well as approved an additional \$50 million allocation to the Real Estate portfolio, (see pages 16 – 18 for a detailed schedule of these investments).

Additionally, in response to this year's financial crisis and in anticipation of market challenges going forward, the Board approved several revised policies, plans and/or guidelines essential to the overall governance of the retirement trust. The Board adopted a revised Investment Policy Statement that clarifies language regarding investment manager fiduciary capacity, and modified asset/sub-asset class definitions and allocations.

Similarly, the Board adopted a revised strategic investment plan for alternative investments that stipulates an increased allocation to alternative investments. The Board also approved an index fund option for the internally managed fixed income portfolio to balance with the more aggressive-leaning externally managed portfolio in order to move the overall fixed income portfolio to a more moderate posture.

Actuarial

Actuarial valuation is a critical tool that drives Board decisions impacting the ability of the plan to provide benefits to our members now and into the future. The Trust has a funded ratio of 104% as of our last valuation on July 1, 2008.

During the fiscal year, the Board addressed a number of actuarial matters affecting the future of plan assets. The consulting actuary recommended in the Economic Experience Analysis, and the Board adopted a reduced rate of return assumption of 7.75%, down from the current 8.00%. As a result of the 0.25% reduction in the rate of return assumption, along with increased benefits cost due to a benefit enhancement approved by the voters in June 2008, the employer contribution rate for fiscal year 2009-10 increased from 4.99% to 9.49%.

In line with the 0.25% reduction in the rate of return assumption, the Board reduced the credited interest rate (the rate of interest members earn on their account balances) by an equal amount from 5.00% to 4.75%.

Benefit Policies

The Board oversees routine as well as complex matters, in accordance with Board policies which impact the overall administration and operations of the Retirement System. In fiscal year 2008-09, the Board reviewed and approved four new policies, and amended one policy impacting purchase of service, work after retirement, and recovery of workers' compensation benefits.

The Normal Retirement Age and Bona-Fide Separation policies work hand-in-hand to ensure the Retirement System is in compliance with Internal Revenue Service (IRS) regulations on distributions from retirement plans. According to IRS regulations, and as specified in the Bona-Fide Separation policy, a member who retires from SFERS and who is under the normal retirement age—age 50 for safety members and age 62 for miscellaneous members (as determined in the Normal Retirement Age policy)—is prohibited from entering into an agreement with his/her employer to return to work as a retiree, and must have a "bona fide" break in service of at least 60 days between the member's effective retirement date, and the member's (as a retiree) new employment with the City or other SFERS employer.

The Purchase of Unpaid Parental Leave and Purchase of Public Service Policies establish regulations for the purchase of retirement service credit for periods eligible members were on unpaid parental

leave prior to July 1, 2003, and for time worked and were enrolled in a defined benefit plan under the federal government, State of California, or other public agency in the State of California, prior to becoming a member of SFERS, respectively.

The Recovery of Workers' Compensation Benefits Policy, details the manner in which the Retirement System will recover benefits paid by the City because of injuries or illnesses resulting in a safety member's death or retirement, as a way of preventing double recovery by a City employee or survivor for a duty-incurred disability through receipt of both a disability retirement allowance under the Charter and workers' compensation benefits

Education

The Retirement Board strives to improve competency and enhance understanding of pension investments and overall Board governance through education. During fiscal year 2008-09, members of the Board attended conferences, roundtables, symposiums and other like forums offering diverse topics such as investing in real estate and alternatives, benefits and pension administration, investment manager selection, risk management, as well as institutional investing and fiduciary oversight, to name a few.

Litigation/Legislation

The Retirement System Senior Administration Staff and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes that could impact the SFERS. In fiscal year 2008-09, the Board of Supervisors approved amendments to the Public Service ordinance and voters approved a charter amendment allowing members to purchase time from unpaid leaves of absence related to pregnancy, both affecting SFERS' business (see "Benefit Policies" on page 9 for details).

Requests for Proposals (RFP)

Running a complex business such as the Retirement System requires collaboration between SFERS staff and a network of expert professionals. The Retirement System gains access to these experts by issuing RFPs. During fiscal year 2008-09, the Board issued, reviewed and approved the following RFPs:

- Executive Search Firm for Executive Director Position
- Investment Management Services for Active Currency Overlay
- Fiduciary Governance Consulting Services

457(b) SFDCP

The Retirement System offers active members an opportunity to acquire additional retirement savings intended to supplement pension benefits with voluntary contributions to a 457(b) Deferred Compensation Plan. The San Francisco 457(b) Deferred Compensation Plan (SFDCP) is administered by a third party administrator (Great-West Retirement Services), and is managed by the SFERS Deferred Compensation Manager who continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement.

Accordingly, the staff submits to the Board scheduled reports provided by Angeles Investment Advisors, and an Annual Plan Review provided by Great-West Retirement Services, regarding performance and administration of the SFDCP.

In fiscal year 2008-09, the Board approved a new Third Party Administrator (TPA) vendor for the SFDCP, Great-West Retirement Services (GWRS). GWRS offers SFDCP participants improved plan features including lower participant fees, an enhanced core lineup of investment options, a customized web site and communications, enhanced online transactions, and a local service center in San Francisco.

The transition to Great-West, effective January 29, 2009, impacted a number of the core investment options as well as the underlying investments in the asset allocation of the SFDCP Near Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Long Term Portfolio. These changes are detailed on page 41.

From the Executive Director

As the Executive Director of the San Francisco Employees' Retirement System, It is my privilege to share with you an overview of the Retirement System's accomplishments over this last fiscal year.

Proposition B

In June 2008, the voters approved a benefit enhancement for miscellaneous members which went into effect on January 11, 2009. The enhancement changed the age factor for members 60 years and older who retired on or after January 11, 2009, and changed the way in which COLAs are calculated.

The retirement system staff successfully implemented new systems and processes to accommodate the expanded age factor and COLA calculations, and between January 11, and June 30, 2009, our Retirement Services group processed over 520 retirements for members receiving enhanced benefits under Proposition B.

Deferred Retirement Option Program (DROP)

The Deferred Retirement Option Program (DROP) for eligible members of the San Francisco Police Department was established by the voters on the February 5, 2008 ballot, and went into effect on July 1, 2008.

Much like the modifications that were required for the Proposition B enhancement, the Retirement System's staff successfully implemented new systems and processes to support the DROP implementation including establishing a team of Member Services professionals dedicated to educating and enrolling all interested and eligible members. SFERS processed 60 DROP elections during the fiscal year.

Staff

During the fiscal year, we began recruitment and selection for the first significant staff enhancement in our investment team in over a decade. The newly created Managing Director positions in the Investments Division will better position our staff to manage our growing pool of assets within a complex asset allocation structure.

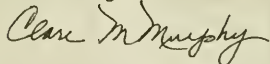
Our knowledgeable and experienced staff continues to provide ongoing recommendations to the Board to address the recent capital market conditions that have challenged SFERS, along with all institutional investors. Staff also continues to support the Board in its succession planning efforts.

Beyond Fiscal Year 2008-09

We continue to look for ways to streamline processes and implement more efficient systems for conducting our business. Our Administration staff is poised to implement a new disability retirement case management system—intended to make tracking these types of retirements more efficient and timely. We have a Disaster Recovery/Business Resumption Steering Committee working on an emergency preparedness plan to ensure staff's and members' safety and to minimize impact on our business in the event of a disaster.

The Retirement System is fully committed to fulfilling our mission as we work to identify and implement new measures of providing our members with the exceptional service they have come to expect.

Warmest Regards,



Clare M. Murphy

SFERS Senior Staff

Administration



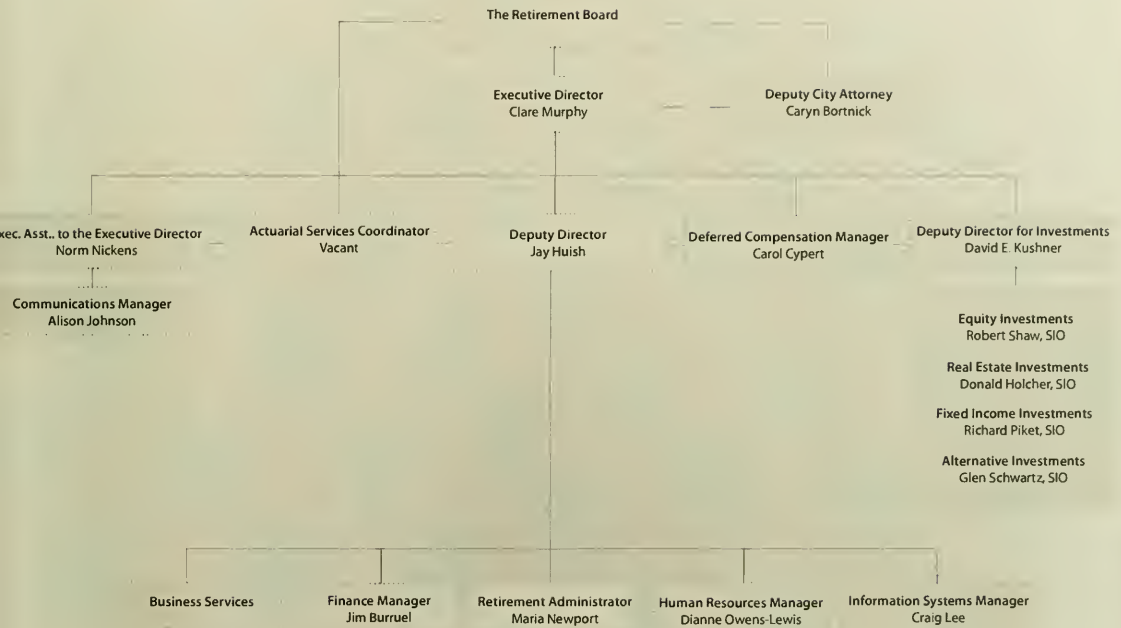
Front Row: Alison Johnson, Communications Manager; Craig Lee, Information Systems Manager; Clare Murphy, Executive Director; Norm Nickens, Executive Assistant to the Executive Director; and Dianne Owens-Lewis, Human Resources Manager Back Row: Jim Burrue, Finance Manager; Jay Huish, Deputy Director; Maria Newport, Retirement Administrator; and Carol Cypert, Deferred Compensation Manager

Investments



Left to right: Glen Schwartz, SIO Alternative Investments; Robert Shaw, SIO Equities; David Kushner, Deputy Director for Investments; Richard Piket, SIO Fixed Income; and Don Holcher, SIO Real Estate

SFERS Organizational Chart



Investments

Dedicated to securing, protecting and prudently investing the pension trust assets

Overview

The global economy encountered significant challenges during the Fiscal Year, and the economic outlook for the year ahead is uncertain. The headwinds of the housing and financial market crisis, combined with the credit crunch and elevated food and energy prices, translate into expected sluggish economic growth and a worrisome inflationary situation.

The Federal Government, through various bailout programs (TARP, TALF, PPIP, General Motors, Chrysler, Banks, etc.) has now generated a deficit as a percentage of GDP not seen since World War II. In addition to the liquidity flooding markets from these programs, ongoing loose monetary policy on the part of the Federal Reserve System (near zero interest rates) continues to support a sluggish economy. While recent economic reports tend to show the economy is nearing a bottom (if we have not already seen it) the outlook for employment remains weak. The unemployment rate continues to climb, new job creation is essentially non-existent, and many of the longer term unemployed have given up hope of finding a new job in the near term.

Combined with attempts by Congress to overhaul significant portions of the U.S. Economy (i.e., Health Care, Financial Services) the outlook is as opaque as it has been in the past thirty years. SFERS continues to adhere to investment policies and disciplines designed to take a longer term view, and manage through both difficult and ebullient times with a steady approach to investment of the System's assets.

During the Fiscal Year, staff, in conjunction with consultants, continued to make progress on enhancing the System's Risk Management capabilities, focused currently on the Equity Asset Class. Staff and external consultants also reviewed the Fund's sub-asset class allocation in the Public Market (Equities and Fixed Income) segments of the Fund, deciding to make only modest changes at this time.

For the Fiscal Year 2009, the System posted a -21.98% return versus -16.17% from the Policy Benchmark. All asset classes trailed their respective indices, with the greatest relative underperformance coming from the Real Estate portfolio.

SFERS' portfolio ranks well against category peers (Public Funds with assets in excess of \$1 billion). The System remains a top quartile performer for the five year period.

At the Fiscal Year End, the International Equity Asset Class was slightly underweight its allowed range (19.8% vs. 20% minimum), while the Fixed Income Asset Class was slightly overweight allowed targets (30.3% vs. 28% maximum). The remainder of SFERS' assets was within allowable asset allocation ranges at the close of the fiscal year. Due to the volatility and market disruption in certain subsectors of Fixed Income, staff is working closely with external managers and consultants to bring the asset allocation back into compliance.

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. However, the Retirement System's investment objective has essentially remained the same: *to maximize long-term rates of return on investments within prudent guidelines.*

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in October 2008:

Asset Class	Policy Target	Policy Range	Actual
U.S. Equity	26%	22-30%	24.8%
International Equity	23%	20-26%	19.8%
Global Fixed Income	25%	22-28%	30.3%
Alternative Assets	14%	10-18%	12.2%
Real Estate	12%	9-15%	12.3%
Cash	0%	0-1%	0.6%

Investment Performance Highlights for Fiscal Year Ended June 30, 2009

The Retirement System investment portfolio returned -21.98% for the fiscal year ended June 30, 2009, underperforming the policy benchmark return of -16.17%. All asset classes posted negative returns for the Fiscal Year.

Equity

Returns for the combined equity portfolio were -29.31% for the fiscal year, underperforming the total equity policy benchmark return of -27.50% by 181 basis points. The U.S. equity portfolio return was -26.25%, besting the Russell 3000 benchmark return of -26.56% by 31 basis points. The International equity portfolio was down for the year, returning -32.98% underperforming the benchmark return of -30.18% by 270 basis points.

2008-09 Equity Commitments:

- Ashmore Global Special Situations Fund V (Opportunistic International Equities), \$25 million

Fixed Income

The Fixed Income Portfolio had a disappointing performance for the Fiscal Year ending June 30, 2009 posting a -6.7% return. An aggressive investment strategy (including exposure to high yield bonds and emerging markets debt) contributed a positive return in the last quarter of the year but was not sufficient to recover losses suffered in the first half of the Fiscal Year.

During the Fiscal Year, approximately \$577 million was raised from various Fixed Income Portfolios, largely to help pay retirement benefit payments but also to adjust to a Board approved reduction in the Plan's asset allocation to Fixed Income from 30% to 25%.

During the course of the Fiscal Year the Retirement Board approved Fixed Income manager guidelines to reduce risk in the high yield commercial mortgage backed securities portfolios and to prohibit investments in the credit default swap market. There were no new commitments to Fixed Income managers.

Alternative Investments

The Retirement Board approved an annual investment plan for the Alternative Investment Program recommending an investment pace of \$275 million for calendar year 2009. The new commitments were invested in a diversified set of private equity limited partnerships sponsored by investment management firms currently managing money for SFERS, or newly selected investment management firms with strategies aimed at enhancing the portfolio. At fiscal year-end, the market value for alternative investments was \$1.5 billion, or 12.7% of the total fund assets.

The alternative investment portfolio returned -23.9% for the fiscal year. Over a ten-year period, the portfolio earned an 8.5% annualized return, exceeding the performance benchmark (the S&P 500 + 5% over a rolling ten-year period) by 527 basis points.

2008-09 Alternative Investments Commitments:

Buy Out:

- Clessidra Capital Partners II, LP, \$30 million
- Towerbrook Investors III, LP, \$30 million
- Odyssey Investment Partners IV, LP, \$30 million
- Charterhouse Capital Partners IX, LP, \$35 million
- Hellman Friedman Capital Partners VII, LP, \$30 million

Venture:

- Interwest Ventures X, LP, \$10 million
- Knightsbridge Venture Capital VII, LP, \$30 million
- New Enterprise Associates XIII, LP, \$15 million
- TA Associates XI, LP, \$25 million
- Trinity Ventures X, \$10 million
- Draper, Fisher & Jurvetson Fund X, LP, \$10 million
- Doll Capital Management VI, LP, \$10 million

Special Situations:

- Apollo European Principal Finance, LP, \$30 million
- Portfolio Advisors Secondary Fund, L.P, \$40 million
- TA Associates Sub-Debt Fund III, LP, \$15 million

Real Estate

As with other SFERS investments, the Real Estate portfolio is a reflection of the changes in the global credit markets. For the long-term, SFERS continues to find real estate an attractive asset class which continues to provide diversification from other asset classes such as equities, fixed income and alternative investments. In addition, this asset class offers stable and attractive risk-adjusted performance. Historically, during higher inflationary periods, investors turn to and benefit from "hard assets" such as real estate.

Under current conditions in the economy, tighter credit and a slow down in real estate transactions, SFERS will delay investing new capital except for exceptional and opportunistic situations where SFERS capitalizes on taking good assets from financially distressed sellers.

Furthermore, in light of the global credit crisis and with the slow down in real estate transaction volume, SFERS will look for its third party managers to focus on asset management issues such as leasing and maintaining the competitive position of the properties to ensure that when economic conditions improve, the real estate portfolio will be well positioned for the future benefits, objectives and goals of SFERS' real estate investment program.

During the fiscal year, the recession and scarce financing caused SFERS' real estate investments to experience declining occupancies, rents, and market values. Commercial real estate is expected to recover once the current unemployment trends stabilize and reverse. Northern Trust, SFERS' Performance Measurement provider, reports that the real estate portfolio provided a -25.64% net return for the trailing one-year period ending June 30, 2009. For the five year period, the net returns for the portfolio's investment in private real estate were 6.64%, underperforming the benchmark return of 10.93%. SFERS uses the National Property Index (NPI) plus 1.5% as reported by Pension Real Estate Association (the industry's association of institutional investors) for benchmarking real estate returns.

The distress in the commercial real estate market is expected to create compelling investment opportunities in the future. Real estate continues to play a diversification and inflation-hedging role in the Retirement System investment portfolio.

2008-09 Real Estate Commitments:

- Approved additional \$50 million allocation to global real estate securities.
- Given the expectation of further decreases in net operating income and pricing in the near term, SFERS did not make any significant property acquisitions.

As of June 30, 2009, approximately 13% of SFERS trust assets were managed internally, including \$536 million in domestic bonds and \$1.05 billion in domestic equities. The balance of the portfolio was managed externally by investment firms that specialize in specific asset classes including international and domestic equities, global fixed income, alternative investments and real estate.

San Francisco Employees' Retirement System

Summary of Investments

at June 30, 2009

at June 30, 2008

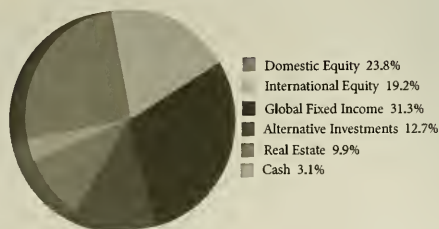
Asset Class	Market Value (\$000)	% of Portfolio	Market Value (\$000)	% of Portfolio
Equities				
U.S. Equities	\$2,835,168	23.8%	\$4,138,513	29.2%
International Equities	2,279,316	19.2%	3,226,693	22.9%
Total Equities	\$5,114,484	43.0%	7,365,206	52.1%
Global Fixed Income	\$3,716,234	31.3%	\$4,540,996	25.1%
Alternative Investments				
Buyout	737,490	6.2%	850,211	4.5%
Venture	479,066	4.0%	554,999	3.4%
Special Situations	294,694	2.5%	281,717	1.5%
Total Alternative Investments	\$1,511,250	12.7%	\$1,686,927	9.5%
Real Estate	\$1,181,932	9.9%	\$1,788,561	10.0%
Cash	\$362,829	3.1%	\$450,831	3.3%
Total Investment Portfolio	\$11,886,729	100.0%	\$15,832,521	100.0%

Source: Macias Gini & O'Connell, LLP in FY 2009; Williams, Adley & Company, LLP in FY 2008

Pension Fund Net Assets (in billions)
as of June 30, 2009



Asset Allocation
as of June 30, 2009



1. Cash includes cash "set aside" for payment of benefits and expenses, and transactions in progress.

For the Fiscal year ended June 30, 2009, the Investment portfolio of the Retirement System suffered from continued economic malaise amid the "credit crisis" ending the fiscal year down -21.98%. On a broad asset class basis, all asset classes were substantially negative, with Alternative Investments and Real Estate returning -23.09% and -25.64%, respectively. Total Equities finished down -29.31% and Fixed Income returns also showed vulnerability to the "credit crunch", with the total Fixed Income Portfolio returning -6.66% for the year.

Investment Portfolio Performance vs. Benchmark Returns

Annualized Returns for the Period Ending 6/30/09

(Net of fees and expenses)

Asset Class	1-Year	3-Years	5-Years
Domestic Equity	-26.37	-8.87	-2.34
<i>Russell 3000</i>	<i>-26.56</i>	<i>-8.35</i>	<i>-1.84</i>
International Equity	-33.23	-7.51	3.42
<i>MSCI ACWI Free ex U.S.</i>	<i>-30.18</i>	<i>-5.46</i>	<i>4.71</i>
Global Fixed Income	-6.66	0.22	2.62
<i>Lehman Global</i>	<i>4.93</i>	<i>5.77</i>	<i>4.90</i>
Real Estate	-25.64	-0.25	6.64
<i>Gross NPI + 1.5%</i>	<i>-13.18</i>	<i>5.65</i>	<i>10.93</i>
Alternative Assets	-23.09	5.75	15.17
<i>Through 12/31/06: S&P + 6%; Beginning 1/1/07: S&P + 5%</i>	<i>-21.21</i>	<i>-3.22</i>	<i>2.76</i>
Total Fund	-21.98	-3.55	2.78
<i>Weighted Policy Benchmark</i>	<i>-16.17</i>	<i>-1.29</i>	<i>3.46</i>

Source: The Northern Trust Company

Finance

Oversees the System's financial position and reports operating results



Overview

The Finance Division oversees trust accounting as well as provides management with key financial information to facilitate planning, control, and overall System oversight. The Finance Division also prepares and reports the Retirement System's financial position and operating results in accordance with generally accepted accounting principles applicable to a public employee retirement system. Disclosures as required by Governmental Accounting Standards Board (GASB) are included in the financial statements and other required supplemental reports.

In addition to financial oversight, the Finance Division provides statistical and financial data for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the Employees' Retirement System is adequately funded at all times.

The accounting and financial reporting functions are divided into several major activities:

- Investments Accounting
- Member and Employer Contributions Accounting
- Benefits Payment Accounting
- Employees' Deferred Compensation Accounting
- Budget and Appropriations Control
- General Ledger and Financial Reporting

The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 24 and 25) for fiscal years ended June 30, 2009 and 2008, demonstrate the financial condition of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2009.

Readers who have questions regarding the financial information provided in this report are encouraged to contact SFERS and request the full set of audited Financial Statements and Supplemental Schedule as prepared by the City's independent auditors, Macias Gini & O'Connell, LLP (2009) and Williams, Adley & Company, LLP (2008).

Statements of Plan Net Assets

Years Ended June 30, 2009 and 2008

Assets	2009 (\$'000)	2008 (\$'000)
Deposits	\$ 34,170	\$ 77,554
Accounts Receivable – Airport Police Transfer from CalPERS	6,351	-
Contributions Receivable – Members	8,286	7,635
Contributions Receivable – City and County	5,344	5,826
Investment Income Receivable:		
Interest	27,526	39,844
Dividends	9,026	11,297
Securities lending Income	7,859	3,364
Fixed Coupon Dollar Repurchase Agreement Income	0	1,381
Receivables from Brokers, General Partners, Others	185,725	330,883
Investments at Fair Value:		
Short-Term Investments	504,096	879,724
Debt Securities:		
U.S. Government Securities	1,053,552	1,358,339
Other Debt Securities	2,662,681	3,182,657
Equity Securities	5,114,484	7,365,206
Real Estate	1,181,932	1,788,561
Venture Capital	1,511,250	1,686,927
Forward Currency Contracts, Net	2,094	-
Investments in Lending Agents' Short-Term Investment Pool	837,074	1,567,442
Total Investments	\$ 12,867,163	\$ 17,828,856
Total Assets	\$ 13,151,450	\$ 18,306,640
Liabilities	2009	2008
Payable to Brokers	\$366,728	561,394
Securities Lending Payable	46,242	-
Obligations Under Fixed Coupon Dollar Repurchase Agreements	0	322,063
Foreign Currency Contracts, Net	0	504
DROP	4,143	-
Other Liabilities	12,020	22,716
Payable to Borrowers of Securities	881,830	1,567,442
Total Liabilities	1,264,721	2,474,119
Net Assets Held in Trust For Pension Benefits:	\$ 11,886,729	\$ 15,832,521

Source: Macias Gini & O'Connell, LLP in FY 2009; Williams, Adley & Company, LLP in FY 2008

Statements of Changes in Plan Net Assets

Years Ended June 30, 2009 and 2008

Additions	2009 (\$000)	2008 (\$000)
Member Contributions:		
Miscellaneous	\$ 161,386	\$ 156,203
Police	18,566	16,823
Police – Airport Police Transfer from CalPERS	6,350	-
Firefighter	13,012	12,097
Total Member Contributions	199,314	185,123
City and County Contributions:		
Miscellaneous	98,306	111,548
Police	12,910	13,114
Firefighter	8,535	9,398
Total City & County Contributions	119,751	134,060
Investment Income (Expenses):		
Interest	232,926	254,737
Dividends	144,815	183,940
Net Appreciation (Depreciation) in Fair Value of Investments	(3,815,666)	(1,103,894)
Securities Lending Income	(25,493)	54,550
Fixed Coupon Dollar Repurchase Agreement Income	(9,104)	8,638
Investment Expenses	(37,110)	(51,079)
Securities Lending Borrower Rebates and Expenses	(1,568)	(69,352)
Fixed Coupon Dollar Repurchase Agreement Finance Charges and Expenses	(1,650)	(12,972)
Investment Gain/(Loss), Net	(3,512,850)	(735,432)
Total Additions/(Deductions)	\$ (3,193,785)	\$ (416,249)
Deductions	2009	2008
Benefits	732,342	682,230
Refunds of Contributions	6,714	8,449
Administrative Expenses	12,951	12,594
Total Deductions	\$752,007	\$ 703,273
Net Increase/(Decrease)	\$(3,945,792)	\$ (1,119,522)
Net Assets Held in Trust For Pension Benefits:		
Beginning of Year	\$ 15,832,521	\$ 16,952,043
End of Year	\$ 11,886,729	\$ 15,832,521

Source: Macias Gini & O'Connell, LLP in FY 2009; Williams, Adley & Company, LLP in FY 2008

Pension Fund Investment Income

Plan Year 2008-09

Income	Realized Gain/Loss	Unrealized Gain/Loss	Total
Interest Earned			232,925,611
Dividends Earned			144,815,280
Securities Lending Income-Net			(27,060,978)
Dollar Roll Income – Net			(10,753,965)
Recaptured Commission Income – Net			76,606
Real Estate Income			65,028,368
Alternative Investment Income			(114,073,309)
Investment Expenses			(37,110,315)
Total Income¹			\$ 253,847,298
Net Appreciation in Fair Values			
Short-Term Securities	(39,454,659)	\$(1,704,952)	(41,159,611)
Equities	(1,215,192,080)	(1,047,419,249)	(2,262,611,329)
Debt Securities	(172,330,328)	(367,804,617)	(540,134,945)
Real Estate	5,721,076	(525,261,212)	(519,540,136)
Venture Capital	109,053,778	(455,946,650)	(346,892,872)
Other Assets	8,418,737	(27,026,698)	(18,607,961)
Total Net Appreciation	\$(1,303,783,476)	\$(2,425,163,378)	\$(3,728,946,854)
Total Income (Including Net Appreciation):			\$ (3,475,099,556)
Increase/(Decrease) from FY 2007-08:			\$ 1,232,171,711

Source: Macias Gini & O'Connell, LLP

1. Total Income excludes employee and employer contributions.

Pension Fund Disbursements

Plan Year 2008-09

Payments/Expenses	Amount
Service Retirement Payments	\$ 539,917,085
Disability Retirement Payments	140,804,385
Proposition C – Cost of Living Adjustment	36,446,694
Death Allowance Payments	3,938,609
Death Benefits	2,538,880
Normal Contributions Paid as Death Benefit	3,923,725
Retired Annuitant Rolls (Option 1 Death Benefit)	629,379
DROP Program Accrued Retirement Benefits	4,143,265
Refunds of Contributions	6,714,122
Administrative Expenses: Retirement Services/Administration	12,034,282
Total Payments & Expenses	\$ 751,090,426
Increase/(Decrease) from FY 2007-08:	\$ 47,816,531

Source: Macias Gini & O'Connell, LLP

3-Year Comparison of Contributions

Employer (City & County) Contributions

Member Plan	2008-09	2007-08	2006-07
Miscellaneous Plan	\$ 98,305,683	\$ 111,548,066	\$ 110,317,193
Firefighter Plan	8,534,677	9,398,037	9,681,960
Police Plan	12,909,608	13,113,815	12,602,415
Total	\$ 119,749,968	\$ 134,059,918	\$ 132,601,568

Employee Contributions

Member Plan	2008-09	2007-08	2006-07
Miscellaneous Plan	\$ 161,385,899	\$ 156,203,410	\$ 148,452,563
Firefighter Plan	13,012,377	12,096,680	11,802,825
Police Plan ¹	24,916,935	16,822,537	15,491,371
Total	\$ 199,315,211	\$ 185,122,627	\$ 175,746,759

1. Includes transfer of plan assets from CalPERS.

3-Year Comparison of Actual Administrative Expenditures

Retirement Services & Administration Divisions

Expenditure	2008-09	2007-08	2006-07
Personnel Services (Staff)	\$ 8,624,045	\$ 7,194,372	\$ 6,014,410
Equipment Purchase	0	39,323	0
Materials and Supplies	167,372	220,590	119,260
Services of Other Departments	1,675,812	3,470,726	3,739,136
Other Services	2,484,098	1,669,669	1,489,065
Total	\$ 12,951,327	\$ 12,594,680	\$ 11,361,871

Investment Division

Expenditure	2008-09	2007-08	2006-07
Personnel Services (Staff)	\$ 1,595,310	\$ 1,608,135	\$ 1,589,905
Equipment Purchase	0	48,186	34,069
Materials and Supplies	1,689	9,255	16,397
Services of Other Departments	825,417	409,449	368,399
Investment Management and Consulting	33,859,326	48,444,904	41,435,148
Total	\$ 36,281,742	\$ 50,519,929	\$ 43,443,918

Retirement Services

Providing members with information and education about retirement benefits and services



Overview

SFERS employs a dedicated team of knowledgeable professionals who offer invaluable services to our members and their beneficiaries. Under the direction of the Deputy Director, the Retirement Services Division conducts new member enrollments, benefits calculations, active and retired member counseling, pre-retirement education, as well as oversees member communications, retiree payroll and tax reporting, termination benefits and death payments.

SFERS Plan Membership

The Retirement System administers six benefit structures for the City and County of San Francisco's pension plan according to employee group: Police New Plan and Old Plan, Firefighter New Plan and Old Plan, and Miscellaneous New Plan and Old Plan. Generally, employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans, whereas employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans.

While the November 1976 Charter amendments established the New Plans, New Plan benefits currently in effect for Miscellaneous members were established by Charter amendment passed in November 2000, and New Plan benefits currently in effect for Safety members were established by Charter amendment passed in November 2002. A description of each Plan by Charter section is found on page 32.

SFERS members include employees of the San Francisco Unified School District, the San Francisco Community College District, Trial Courts, as well as the City and County of San Francisco.

Beginning on September 1, 1995, employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during any 12-month period, become eligible for retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, members of the Safety Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while members of the Safety New Plans automatically became members of SFERS under San Francisco Charter Sections A8.598 and A8.596 under provisions of Proposition H passed by the voters in November 2002.

Members of the Miscellaneous Plan are also members of the Social Security System, beginning September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement. This reduced contribution provision is no longer available to SFERS members.

Additionally, employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems. For example, deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; full-time school teachers hired after June 30, 1972 are members of the State Teachers Retirement System.

SFERS Plan Structure

Charter Section	Employee Group
S.F. Charter Section A8.509	Miscellaneous employees who became members before November 2, 1976
S.F. Charter Section A8.587	Miscellaneous employees who became members on or after November 2, 1976
S.F. Charter Section A8.559	Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Sections A8.559-14 and A8.586	Police officers who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8.595	Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.597	Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.585	Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.585-14 and A8.588	Firefighters who elected 1981 Proposition F (Buyout) benefits
S.F. Charter Section A8.596	Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003
S.F. Charter Section A8.598	Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003

SFERS Plan Membership Summary

SFERS Active Membership falls within three categories:

1. Active Members who are currently on City and County and other qualified employers Payroll
2. Vested Members who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
3. Reciprocal Members who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2009, there were 26,205 members of the Miscellaneous Plans, 2,246 members of the Police Plans and 1,459 members of the Firefighter Plans.

SFERS Active Membership as of June 30, 2009

Plan Membership Group	Active	Vested	Reciprocal	Total
Old Miscellaneous Plan Members Before November 2, 1976	430	33	6	469
New Miscellaneous Plan Members on or After November 2, 1976	25,775	3,735	846	30,356
Old Police Plan Members Before November 2, 1976	15	0	0	15
New Police Plan Members on or After November 2, 1976	2,231	107	17	2,355
Old Firefighter Plan Members Before November 2, 1976	11	0	0	11
New Firefighter Plan Members on or After November 2, 1976	1,448	39	21	1,508
Total	29,910	3,914	890	34,714

Contribution Rates

Employer (City and County) Contribution Rates¹ as a Percentage of Covered Payroll

Covered Plan Year	Police	Firefighter	Miscellaneous
1998-2004	0%	0%	0%
2004-2005	4.48%	4.48%	4.48%
2005-2006	6.58%	6.58%	6.58%
2006-2007	6.24%	6.24%	6.24%
2007-2008	5.91%	5.91%	5.91%
2008-2009	4.99%	4.99%	4.99%

Employee Contribution Rates¹ as a Percentage of Covered Payroll

Plan Membership Group	Rate of Contribution
Miscellaneous (Old) ²	8.00%
Miscellaneous (New)	7.50%
Police (Old)	7.00%
Police (New)	7.50%
Firefighter (Old)	7.00%
Firefighter (New)	7.50%

1. Contribution Rates are composite rates for Old and New groups.
2. Contributions for Old Plan Miscellaneous Employees (S.F. Charter Section A8.509) are based on gross income. Contributions for other groups are based on gross income minus overtime compensation.

Retirement Statistics

Plan Year ended June 30, 2009

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2008-09, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2008-09 and 2007-08:

Activity	2008-09	2007-08
Retirement Estimate Requests	938	1070
Retirement Appointments ¹	2199	1806
Retirement Applications Processed ¹	1087	996
Buyback Appointments	1818	1844
DROP Counseling Sessions	118	0
Personnel Transactions:	1822	3236
New Members (New Hires)	941	1728
New Members (1040 Hours Membership)	626	938
Rehires	115	170
Police Recruits	118	342
Fire Recruits	22	58
Pre-Retirement Seminars	6	9
Registered Attendees at Pre-Retirement Seminars	756	827
Mid-Career Retirement Planning Seminars	1	1
Registered Attendees at Mid-Career Seminars	90	76
New Member Retirement Planning Seminars	1	0
Registered Attendees at New Member Seminars	62	0

1. DROP not included.

The Retirement Services Division sponsored and conducted six pre-retirement seminars during Plan Year 2008-09. These seminars provided individualized benefits counseling for 756 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career and one new-member retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association, the Fire Department, and the Public Utilities Commission (including Hetch Hetchy).

New Retirements

Effective During Plan Year ended June 30, 2009

Member Group	Service	Vesting	Industrial Disability	Ordinary Disability	Total
Miscellaneous	762	208	N/A	22	992
Police	51	4	7	0	62
Firefighter	61	1	6	0	68
Totals	874¹	213	13	22	1122

The total number of new retirements effective during Plan Year 2008-09 was 43.3% higher than retirements in Plan Year 2007-08, mostly due to a benefit enhancement passed by the voters in June 2008, effective in January 2009. Service retirements represent 77.9% of the total of new retirements processed.

Miscellaneous retirements represented 88.4% of the total retirements processed in Plan Year 2008-09, higher than 85.8% in Plan Year 2007-08.

Police retirements represented 5.5% of the total retirements processed in Plan Year 2008-09, a significant decrease from 8.4% in Plan Year 2007-08.

Firefighter retirements represented 6.1% of the total retirements processed in Plan Year 2008-09, a slight increase from 5.8% in Plan Year 2007-08.

Deferred Retirement Option Program (DROP)

Effective During Plan Year ended June 30, 2009

Rank	Elected Participation	Term of DROP	Exited Participation
Police Officer	30	36 months	2
Sergeant	11	24 months	1
Inspector	14	24 months	2
Lieutenant	3	12 months	1
Captain	1	12 months	0
Totals	59		6

1. Total service retirements in Plan Year 2008-09 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

Total Retirement Allowances

Retired Members and Survivor Continuation Benefits
as of June 30, 2009

Member Category	Service Retirements	Disability Retirements ¹	Death in Line of Duty	Total
Miscellaneous	16,080	1,926	N/A	18,006
Member	13,593	1,409	N/A	15,002
Continuation	2,487	517	N/A	3,004
Police	1,334	800	41	2,175
Member	990	521	0	1511
Continuation	344	279	41	664
Firefighter	1,005	989	34	2028
Member	725	711	0	1,436
Continuation	280	278	34	592
Total	18,419	3,715	75	22,209

Monthly Retirement Benefits Payable

Retired Members and Survivor Continuation Benefits
as of June 30, 2009

Member Category	Service Retirements	Disability Retirements ¹	Death in Line of Duty	Total
Miscellaneous	\$35,291,005	\$3,122,400	N/A	\$38,413,405
Police	7,541,205	3,655,674	181,679	11,378,558
Firefighter	6,423,581	5,624,154	127,190	12,174,925
Total	\$49,255,791	\$12,402,228	\$308,869	\$61,966,888

1. Includes ordinary disability (Miscellaneous, Police and Fire) and industrial disability (Police and Fire).

San Francisco Deferred Compensation Plan

Providing members with opportunities to maximize retirement savings



San Francisco Deferred Compensation Plan (SFDCP) 457(b) Plan Overview

The San Francisco 457(b) Deferred Compensation Plan (SFDCP), adopted in 1979, allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The Plan offers a diverse selection of 19 core investment funds including access to a self-directed brokerage option. During the past year the SFDCP grew in deferrals and number of participants.

The SFERS Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator. Last year, SFERS conducted its customary five-year review of the third-party administrator (TPA) for the SFDCP. From that review, The Retirement Board selected Great-West Retirement Services as the new TPA for the SFDCP, replacing ING Life Insurance and Annuity Company.

The Deferred Compensation Division administers the unforeseen emergency withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposals, SFDCP News, and review of investment fund performance reviews.

As of June 30, 2009, there were 24,272 participants in the SFDCP with Plan assets valued at \$1.5 billion. The table on page 41 provides detailed information about the 19 core investment funds that make up the City's 457(b) Deferred Compensation Plan for Fiscal Year 2008-09.

San Francisco Deferred Compensation Plan
Fund Values as of June 30, 2009

Fund Name	Total Assets	Percent of Total Assets
Ameritrade - Self Directed Brokerage Account	\$9,906,855	0.64%
SFDCP Core Bond Portfolio	58,565,029	3.82%
SFDCP International Equity Portfolio	96,456,139	6.29%
SFDCP Large Cap Core Equity - Active Portfolio	17,114,143	1.12%
SFDCP Large Cap Core Equity - S&P 500 Index	65,931,305	4.30%
SFDCP Large Cap Growth Equity Portfolio	168,694,924	11.00%
SFDCP Large Cap Social Equity Portfolio	5,810,863	0.38%
SFDCP Large Cap Value Equity Portfolio	16,383,317	1.07%
SFDCP Long Term Portfolio	69,371,485	4.52%
SFDCP Mid Cap Core Equity Portfolio	31,417,806	2.05%
SFDCP Mid Cap Growth Equity Portfolio	5,123,433	0.33%
SFDCP Mid Cap Value Equity Portfolio	9,263,002	0.60%
SFDCP Mid Term Portfolio	163,761,551	10.68%
SFDCP Near Term Portfolio	12,125,304	0.79%
SFDCP Real Estate Portfolio	8,975,899	0.59%
SFDCP Small Cap Core Equity Portfolio	4,300,892	0.28%
SFDCP Small Cap Growth Equity Portfolio	12,913,176	0.84%
SFDCP Small Cap Value Equity Portfolio	24,370,910	1.59%
SFDCP Stable Value Portfolio	753,125,252	49.11%
Total Investment Fund Assets At Great-West Retirement Services	\$1,533,611,285	100.00%
Total Annuity Assets At ING	\$2,277,106	
Total Annuity Assets At The Hartford	\$19,041,916	
Total Plan Assets	\$1,554,930,307	

San Francisco Deferred Compensation Plan

Statistics as of June 30, 2009

Retiree Assets:	
Total Retiree Assets Held at Great-West Retirement Services (Non-Annuity)	\$9,787,394
Total Annuity Assets at ING	19,041,916
Total Annuity Assets at The Hartford	21,285,692.68
Total Retiree Assets:	\$31,106,416.00

Changes to the Core Investment Lineup during Fiscal Year 2008-09:

Previous Investment Fund Underlying Investment Fund Name	To	New Investment Fund Underlying Investment Fund Name
American Funds EuroPacific Growth, Class R-4 (AEPGX)	⇒	American Funds EuroPacific Growth, Class R-5 (RERFX)
American Funds Growth Fund of America, Class R-4 (AGTHX) – 50% of the SFDCP Large Cap Growth Equity Portfolio	⇒	American Funds Growth Fund of America, Class R-5 (RGAFX) – 50% of the SFDCP Large Cap Growth Equity Portfolio
ING T. Rowe Price Growth Stock (PRGFX) – 50% of the SFDCP Large Cap Growth Equity Portfolio	⇒	T. Rowe Price Growth Stock (PRGFX) – 50% of the SFDCP Large Cap Growth Equity Portfolio
Fidelity VIP Contrafund, Initial Class (FAVMC)	⇒	Fidelity Contrafund (FCNTX)
Fidelity VIP Mid Cap, Initial Class (FNBSC)	⇒	Fidelity Low Priced Stock Fund (FLPSX)
RiverSource Mid Cap Value, Class R-4 (RMCVX)	⇒	RiverSource Mid Cap Value, Class R-5 (RSCMX)
Vanguard VIF Small Company Growth (VSGIX)	⇒	Vanguard Explorer Fund, Admiral Shares (VEXRX)
Vanguard VIF Small Company Growth (VSGIX) – 50% of the SFDCP Small Cap Core Equity Portfolio	⇒	Vanguard Explorer Fund, Admiral Shares (VEXRX) – 50% of the SFDCP Small Cap Core Equity Portfolio
ING Stabilizer Core Plus Fixed Income	⇒	Great-West Custom Stable Value

As a result of the change to the underlying core investment fund, modifications were also made to the SFDCP Long Term Portfolio, SFDCP Mid Term Portfolio, and SFDCP Near Term Portfolio.

The Retirement Board continues to monitor the 457(b) Deferred Compensation Plan to ensure participants are provided with on-going education, plan enhancements, well performing investment funds, and a competitive fee structure.

Appendix



Actuarial Summary

Assumptions and Method

The main assumptions used to measure the System's funded status to pay future benefits payments were:

Investment Return	8.00% per year (through June 30, 2008)
Investment Return	7.75% per year (July 1, 2008)
Wage Inflation	4.50% per year
Price Inflation	3.50% per year
Retiree Mortality	1994 Group Annuity Mortality Table

The actuarial funding methods used are as follows:

- Entry Age Normal Cost method
- Unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- Unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of investment return greater than or less than the actuarial assumed investment return.

Key Results

Using the method and assumptions detailed above, the key findings of the latest valuation were:

Funded Status as of July 1, 2008

Actuarial Liability	15,358,824,000
Actuarial Value of Assets	15,941,390,000
Unfunded Actuarial Liability <Surplus>	<\$582,566,000>
Funded Status (assets / liabilities)	104%

Employer (City & County) Contribution Rates

The retirement contribution rates to be paid by the City in Fiscal Year 2008-09 were derived from the July 1, 2007 actuarial valuation:

Normal Cost	16.19%
Unfunded Actuarial Liability	(7.55)%
Remaining Cost of Propositions	3.42%
Employee Contributions	(7.52)%
Administrative Expenses	0.45%
Board Approved City Contribution Rate	4.99%

Readers who have questions regarding the information provided in this summary may contact SFERS and request the full actuarial report as prepared by SFERS' consulting actuary, Cheiron.

Disability Retirement Hearing Report

A member or, legal agent acting on behalf of the member can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System makes a preliminary determination about the claim, and if in order, forwards the application to the City Attorney's office for review. If uncontested by SFERS counsel, the application is referred to the American Arbitration Association or the Office of Administrative Hearings for hearing. All such applications shall be adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter §A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2009.

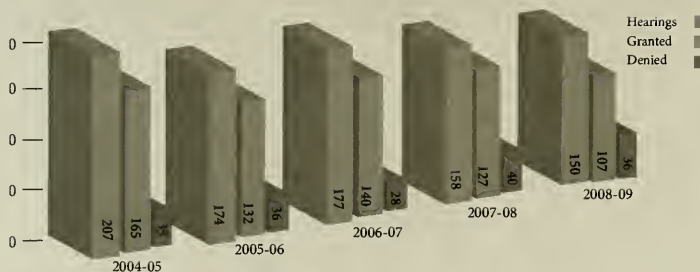
Hearing Officer Report¹

Fiscal Year ended June 30, 2009

Case Category	# Of Hearings	# Granted	# Denied
Industrial Disability Retirements	68	46	9
Ordinary Disability Retirements	70	57	16
Death Benefits	3	0	1
Petitions for Rehearings	0	0	9
PERS	8	4	1
Reinstatements	0	0	0
Total	150	107	36

Hearing Officer Report

5-Year Comparison



1. The Hearing Officer Report represents cases processed in the period July 1, 2008 – June 30, 2009, and may reflect cases pending from prior periods.

The San Francisco Employees' Retirement System Senior Management Team extends sincere gratitude to the entire SFERS staff for their hard work and dedication during the year.

SFERS Staff During Fiscal Year 2008-09

Administration

Timothy Benetti
Geraldine Cerda
Mark Cervantes
Cristina Garcia
Josephine Perez
Mhalou Villamejor

Accounting

Christine Deng
Rowena Lomboy
Michael Ma
Raymond Ng
Phil Samson
Ted Wong
James Yung

Business Services

Allan Amber
Emmanuel Anyiam
Ted Davis
Deborah Rio
Diane Souvannavong

Human Resources

Edward To

Information Services

Will Beatty
Bruce Burnell
Carson Dang
Edna Ho
An Hoang
Irene Miranda
Vinny To
Gus Vallejo
Felix Yan

Investments

Lindsey Adams
Marie Aure-Flieder
Mark Coleman
Daniel Han
Tanya Kemp
Cynthia Wong

Retirement Services

Carolina Acosta
Joseph Almeida
Lois Black
Dorothy Boutte
Debbie Carmel
Imelda Cerezo
Maglenta Chan
Felix Chan
Allan Chang
Grace Chin

Linda Cochran

Mark Davis

Bonnie Decker

Michelle Dones

Candace Fan

Mary Fong

Michael Guess

John Ho

Sue Hwang

Kathleen Kissick

Loan Le

Iris Lee

Emmett Lew

Rheba Martin

Ted Muniz

Reggie Neri

Michael Olsen

Margaret Price

Eric Resendez

Veronica Rodriguez

Nydia Shiffren

Diane Terrell

Phuong Tieu

Vicky Tong

Bill Tran

Joanne Vargas

Alyce Wong

Margaret Yapp



SFERS

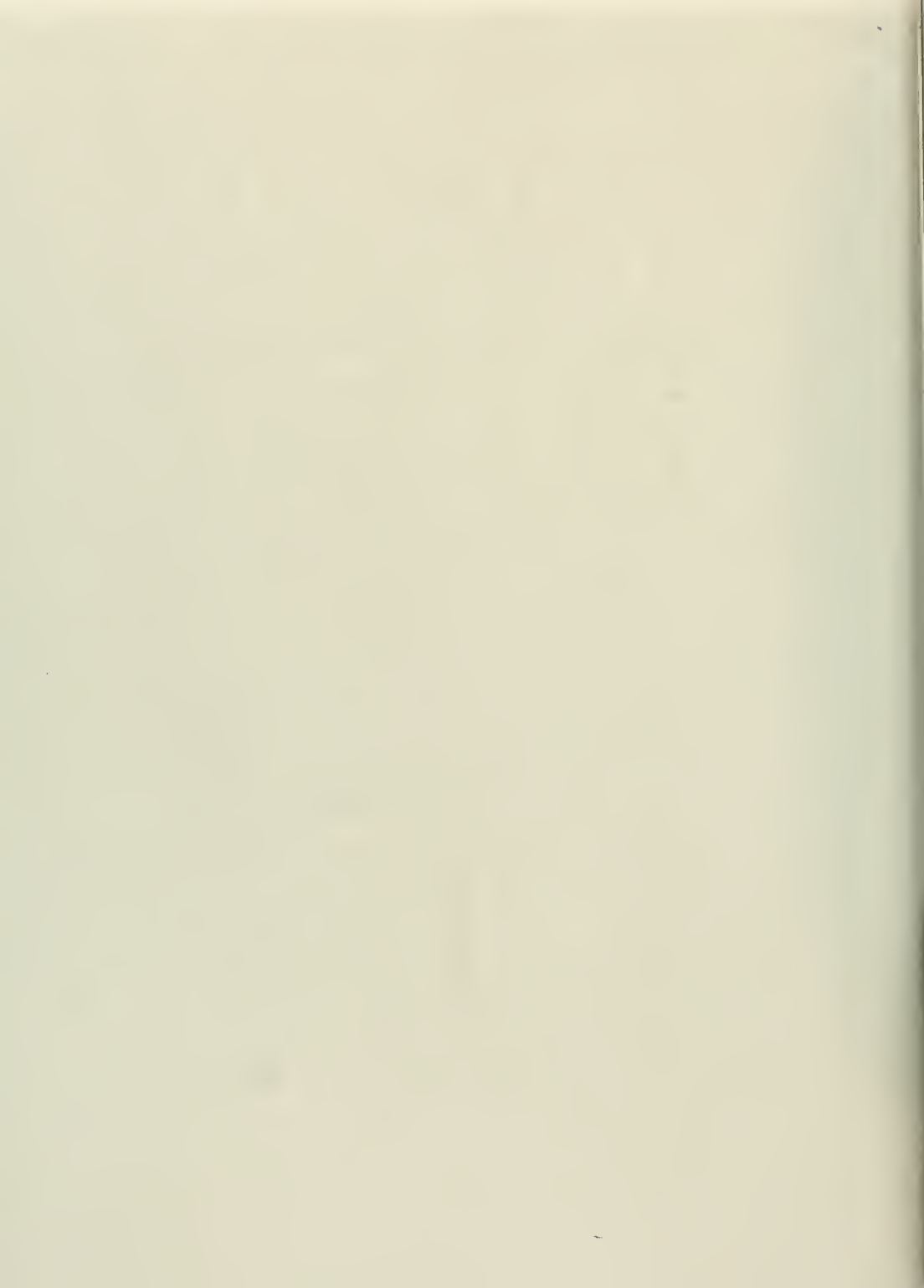
San Francisco Employees' Retirement System

Providing Retirement and Life Insurance since 1913

City and County of San Francisco Employees' Retirement System

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San Francisco Employees' Retirement System

Annual Report

For Fiscal Year Ended June 30, 2010

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SAN FRANCISCO DEFERRED COMPENSATION PLAN (SFDGP)

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SFERS AT A GLANCE

AS OF JUNE 30, 2010

Plan Net Assets Market Value: \$13.1 billion

Total Benefits Paid: \$804.8 million

Average Member Contribution Rate: 7.50%

Employer Contribution Rate: 9.49%

Membership

Total Membership: 51,722

Active: 28,222

Miscellaneous: 24,689

Police: 2,139

Fire: 1,394

Retired: 23,500

Miscellaneous: 19,227

Police: 2,214

Fire: 2,059

Retirements *(during fiscal year 2009-10)*

Total Retirements: 1,540

Miscellaneous: 1,410

Police: 63

Fire: 67

Average Service Credit at

Service Retirement: 23.7 years

Miscellaneous: 23.4 Years

Police: 26.1 Years

Fire: 27.3 Years

Average Age at Service

Retirement: 61.5 Years

Miscellaneous: 62.1 Years

Police: 55.0 Years

Fire: 56.0 Years

The Retirement System

HISTORY

Officially established on April 1, 1922, the San Francisco Employees' Retirement System (SFERS) is deeply rooted in the history and culture of the City and County of San Francisco (CCSF), and is profoundly committed to serving the retirement needs of its members. Originally established as a fund to assist families and orphans of firefighters and police, today the Retirement System serves more than 51,000 active and retired employees of the City and County of San Francisco and their survivors.

Under the direction of the Executive Director, the System's management team administers two employee benefit programs for eligible employees of the City and County:

- San Francisco Employees' Retirement System Pension Plan, a Defined Benefit Plan.
- San Francisco Deferred Compensation Plan, an IRC §457(b) Plan.

Specific San Francisco City Charter sections and/or Administrative Code provisions mandate each of these benefit plans (see "SFERS Plan Structure" on page 39).

THE PENSION PLAN

The SFERS Pension Plan is a qualified defined benefit plan that provides for the following benefits upon separation: service and disability retirement, refund or vesting allowance, and pre- and post-retirement death benefits to beneficiaries. Defined benefit plans are funded through employee and employer contributions and investment earnings.



The SFERS has a reciprocity agreement with CalPERS, California county retirement systems covered by the 1937 Act Retirement Law, and certain other local, independent retirement systems that have a reciprocity contract with CalPERS (listed on the CalPERS website).

THE SAN FRANCISCO 457(b) DEFERRED COMPENSATION PLAN

The San Francisco Deferred Compensation Plan (SFDCP), a voluntary IRC §457(b) Plan was adopted in 1979, and allows City employees to voluntarily defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. The SFDCP offers members an opportunity to supplement pension income during retirement.

OUR MEMBERS

SFERS members include eligible employees of the City and County: the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as the Trial Courts.

Uniformed employees working for the City's police and Fire Departments are covered by SFERS Safety Plans. Eligible civilian (non-Safety Plan) employees of the City are covered by the SFERS Miscellaneous Plan.

OUR MISSION

The San Francisco City and County Employees' Retirement System is dedicated to securing, protecting and prudently investing the pension trust assets, administering mandated benefit programs, and providing promised benefits to the active and retired members of the City and County of San Francisco.

ADMINISTRATION

The Executive Director and the senior management team comprise the Administration Division which oversees all other Divisions in the Department – Investments, Member Services, Finance, Actuarial Services, Information Systems, Communications, Human Resources, and the Deferred Compensation Plan. The Administration team manages the day-to-day activities of the System including records management, systems administration and member service.

Additionally, the Administration Division provides support to the Retirement Board in the preparation of meeting materials such as agendas and supporting documents, minutes and public notice requirements for Board and committee meetings. The senior management staff regularly interfaces with Board members, coordinating new trustee orientation and assists in facilitation of on-going educational opportunities.

In addition to oversight of the Retirement System activities and supporting the Retirement Board, the Administration Division is responsible for fulfilling Public Records Requests in accordance with the City's Sunshine Act, State of California Public Records Act, and Federal Freedom of Information Act.

Applications for disability retirement, and subsequent hearings before an Administrative Law Judge, are coordinated



by the Administration Division as well, in consultation with the Workers Compensation Division of the Department of Human Resources. See Member Services for the 2009-10 Disability Hearing Report.

FINANCE

The Finance Division is responsible for operations and trust accounting, as well as providing financial information to the senior management team to facilitate short and long-term planning, control, and decision-making.

An essential role for the Finance Division is the preparation and reporting of the Retirement System's financial statements and in accordance with generally accepted accounting principles applicable to public employee retirement systems.

ACTUARIAL SERVICES

The SFERS Retirement Board contracts with a consulting actuary firm to provide actuarial expertise and systems to the Retirement Board and Retirement System staff and in reporting actuarial information related to the benefit structure and funding status of the Retirement System.

Each year, the Retirement System conducts an actuarial valuation of its assets and liabilities in order to assess the funded status of the System and to determine appropriate levels of employer contributions

to the Fund for the next fiscal year. This report reflects Plan valuation for the fiscal year prepared by the consulting actuary firm, Cheiron, based on data through June 30, 2010.

INVESTMENTS

The Retirement System's investment objective is to maximize long-term rates of return on investments within prudent guidelines.

The Investment Division's professional staff serves as a resource to the Retirement Board in the development of investment policies and practices and in the performance of its fiduciary responsibilities to the SFERS Trust. The Investment Division's professional staff, supported by a group of professional consulting firms, analyzes, develops and recommends asset allocation mixes, manages investment portfolios, and monitors the activities and performance of external investment managers.

MEMBER SERVICES

SFERS dedicates extensive resources to serving the members. The Member Services Division provides a wide array of services to SFERS members and their survivors including active and retired member counseling, active and retired member recordkeeping, communications and outreach, pre-retirement education, member payroll accounting, retiree payroll and tax reporting, calculation and termination of benefits, and death payments.

In Fiscal Year 2009-10, Member Services enrolled 1,557 new members and added 2,015 new retirees. Annual benefit payments totaled \$805 million, paid to 23,500 retirees and their beneficiaries as well as members electing to refund their SFERS account.

To help educate members about their benefits under SFERS, Member Services conducted four retirement seminars for the City's miscellaneous members and one retirement seminar for the City's safety members.

THE RETIREMENT BOARD

The System and its members benefit greatly from the leadership of an experienced and long tenured Retirement Board of the San Francisco Employees' Retirement System. The Board oversees Plan administration, Trust fund investment, member benefit processing and communication, and actuarial funding on behalf of the interests of members.

Within the scope of its duties, the Board establishes and follows policies governing the administration, management, and operation of the City's retirement plans; manages the investment of the Retirement System's assets; reviews and approves disability benefit determinations; and approves actuarial assumptions used to determine long-term benefit promises of the SFERS Pension Plan.

The Retirement Board generally meets once each month to review and to approve important elements of Retirement System business. The Retirement Board is composed of seven members: three members elected by the active and retired members of SFERS; three members appointed by the Mayor in accordance with §12.100 of the San Francisco City Charter; and one member, the President of the Board of Supervisors or his or her designee, appointed from among the other members of the Board of Supervisors.

Retirement Board Members During Fiscal Year 2009-10



PRESIDENT
Richard H. Peterson, Jr.
 Real Estate Investor
 Appointed Member
 Left the Board: 05/17/2010



VICE PRESIDENT
Al Casciato
 Captain, Police Department
 Elected Member
 Term Expires: 02/21/2015



Joseph D. Driscoll, C.F.A.
 Captain, Fire Department
 Elected Member
 Term Expires: 02/20/2011



Herb Meiberger, C.F.A.
 Retiree
 Elected Member
 Term Expires: 02/20/2012



Sean Elsbernd
 Member, Board of Supervisors
 Ex-Officio Member
 Term Expires: 01/07/2011



Brenda Wright
 Senior Vice President
 Regional Manager Community Development
 Wells Fargo & Company
 Appointed Member
 Term Expires: 02/21/2015



Michael Kim
 Partner
 Cendana Capital
 Appointed Member
 Left the Board: 09/16/2009

RETIREMENT BOARD MEMBERS AS OF PUBLICATION DATE



From left to right: Victor Makras (appointed August 2010); Joseph Driscoll, elected member; Al Casciato, President, elected member; Wendy Paskin-Jordan (appointed August 2010); Herb Meiberger, elected member; and Sean Elsbernd, member Board of Supervisors. (not pictured, Brenda Wright, Vice President, appointed member)

A Message From The President

As commissioners of the Board of the San Francisco Employees' Retirement System (SFERS) we have the serious responsibility to oversee the administration of retirement benefits provided to the employees of the City and County of San Francisco for the valuable public service they have provided. We serve on behalf of the membership, to ensure that the benefits they earn are available to them at retirement, as promised. Thanks to prudent investment guidelines and funding principles established over the years, I can report with confidence that the outlook for the System is encouraging.



I am pleased to inform you that the Retirement System continues to be soundly-funded at 91% based on the actuarial value of assets of \$16.1 billion. Instrumental in this positive funding status were the outstanding fiscal year net investment gain of \$1.65 billion or 12.55% for the System's investment portfolio, a considerable rally from an unfavorable return the previous year resulting from the prolonged economic downturn. In particular, this sharp turnaround can be credited, in part, to the forethought of allocating more than \$500 million to investments designed to take advantage of opportunities created by an uncertain market environment. However, understanding that we are not yet out of the woods, the Board and staff continue to evaluate strategies and tools aimed at optimizing real returns on the investment portfolio.

The City's budget woes led to record level retirements this year. Yet in an effort to uphold SFERS' reputation as a valued service provider, staff processed retirement applications for all members desiring retirement by fiscal year end. The Board commends the SFERS staff for contributing to the System's successes and for continuing to serve the members and their beneficiaries at the high level they have come to expect.

Further, in June 2010, the voters approved a charter amendment that changes the formula for calculating final compensation for service retirements from a one-year formula to a two-year formula, and modifying the contribution toward pension costs from 7.5% to 9.0% of pay for safety members hired on or after July 1, 2010.

The Board will continue to encourage development of professional staff and consultants in order to sustain our growing fund. Of note, this year we appointed an Actuarial Services Coordinator to oversee the work of the consulting actuary. This is a critical move for assessing the funded status of the System to determine appropriate levels of employer contributions to the Trust.

Finally, I extend sincere gratitude to the dedicated Retirement staff who persevered during difficult times, to our members for their unwavering confidence and support, and to my volunteer colleagues on the Board who consistently offer expert insight in carrying out their roles as fiduciaries.

It has been an honor presiding over this committed and talented Board for the past year, and we pledge to continue in the pursuit of excellence in serving the members.

Respectfully,

A handwritten signature in dark ink, appearing to read 'Richard H. Peterson, Jr.', written over a horizontal line.

Richard H. Peterson, Jr., President
Retirement Board, City and County of San Francisco

Retirement Board Action During Fiscal Year 2009-10

In fulfilling its duty as fiduciary of the retirement trust assets, and to ensure the health of the investment portfolio with the goal of providing benefits to members into perpetuity, the Retirement Board reviewed, approved, adopted and/or participated in the following actions during the fiscal year ended June 30, 2010:

ACTUARIAL

In accordance with a newly adopted policy governing the System's credited interest rate, the Board approved the reduction of the credited interest rate (the rate of interest members earn on their account balances) from 4.75% to 4.00%. The credited interest rate also impacts calculations of monthly benefits for members who elect an optional form of payment with an enhanced death benefit, buyback payments for account shortages, and vesting allowances for miscellaneous members.



INVESTMENTS

In keeping with the annual investment plan, the investment team brings before the Board, new investment opportunities with the objectives of enhancing both the

structure and diversity of the investment portfolio and sustaining long-term performance.

The Retirement Board approved and revised several policies, plans and/or guidelines essential to positioning the portfolio to take advantage of newly created market opportunities arising out of a persistent fiscal downturn, promoting the long-term viability of the Retirement Trust. The action having the greatest impact to the portfolio was the adoption of a revised strategic investment plan for alternative investments that stipulates the portfolio will be managed under "suggested guidelines or best practices" as endorsed by the greater limited partner community with 70% of commitments in funds domiciled in North America and 30% exposure to international funds.

Additionally during fiscal year 2009-10, under the authorization of the Board and in line with the 2010 Annual Investment Plan for the Alternative Investment Program, the investment team committed \$178 million to the program, with an additional \$75 million allocated to the Real Estate portfolio (see pages 31-33 for a detailed schedule of these investments).

BOARD POLICIES

The Board oversees routine as well as complex matters, in accordance with Board policies which impact the overall administration and operations of the Retirement System. In fiscal year 2009-10, the Board reviewed and approved two new policies significant to the oversight of Trust assets and member benefits provisions.

The Board adopted a Credited Interest Rate Policy which provides that the interest rate charged on member accounts be determined by common economic indicators, namely the 5-year CD rate.



The Retirement Board approved and adopted a policy which promotes transparency in the use of placement agents in connection with SFERS investment decisions. The policy requires the disclosure of payments by placement agents to certain public officials in connection with System investments in or through external managers, as well as prohibits payment of placement agent fees to the Fund. Furthermore, the policy prohibits the System from entering into any agreement with an external manager that does not agree to comply with its policy. Additionally, the Board approved the SFERS business plan and budget for 2010-11, as well as updated provisions within the Board Governance Policy impacting code of conduct, the Board's planning process, and education needs assessment.

EDUCATION

The Retirement Board strives to improve competency and enhance understanding of institutional investing and overall Board governance through education. During fiscal year 2009-10, SFERS Trustees attended conferences, roundtables, symposiums and other educational forums offering diverse topics about investing in the environment and technology, investment opportunities in Asian markets, multi-employer benefits plans, Trustee accountability, and fiduciary oversight.

LITIGATION/LEGISLATION

The Retirement System executive staff and the Office of the City Attorney continuously review and report to the Board, on-going or anticipated litigation, and proposed legislative changes with likely or imminent affect to the SFERS. In Fiscal Year 2009-10, voters approved a charter amendment increasing pension contributions for public safety employees (police and fire) hired on or after July 1, 2010, from 7.5% to 9.0% of pay, and modifying the average final compensation calculation for pensions from a one-year formula to a two-year formula for all employees hired on or after July 1, 2010.

REQUESTS FOR PROPOSALS (RFP)

Running a complex business such as the Retirement System requires collaboration between SFERS staff and a network of expert professional consultants, primarily for managing the System's investment portfolio. The Retirement System gains access to its consultants by issuing RFPs and conducting a competitive bid process. During Fiscal Year 2009-10, the Board issued, reviewed and approved the following RFPs/RFQs:

- Investment Management Services for Active International Small Cap Equity Management
- Investment Management Services for Passive Barclays Capital Aggregate Bond Index Management (excluding tobacco)
- Investment Management Services for Equity Real Estate Portfolio
- Tax Counsel

457(b) SFDCP

The Retirement System administers a 457(b) Deferred Compensation Plan whereby active members have an opportunity to accumulate additional retirement savings intended to supplement pension benefits with voluntary contributions. The SFDCP

Manager oversees the San Francisco 457(b) Deferred Compensation Plan (SFDCP).

The Plan is administered on a daily basis by a third party administrator, Great-West Retirement Services (GWRS). The SFDCP Manager continuously monitors the Plan for enhancement opportunities that will benefit our members as they save for retirement.

Accordingly, the SFDCP staff submits to the Board, two scheduled reports: one is prepared by the Plan's investments consultant Angeles Investment Advisors, and the other an Annual Plan Review, provided by GWRS, highlighting Plan performance and activity.

During this fiscal year, the Board continued to engage in discussions concerning the introduction of Target Date Funds (TDF) into the SFDCP lineup of investment options. TDFs would provide participants with the ability to reallocate automatically the asset mix (stocks, bonds, cash equivalents) in its portfolio according to a selected time frame corresponding with a participant's anticipated retirement date. TDFs are designed as hands-off, long-term investments to help minimize the participant's need to make complex decisions concerning asset allocation and diversification for his/her retirement savings account.

Last year, the Board approved Great-West Retirement Services (GWRS) as the Third Party Administrator (TPA) for the SFDCP. Since the transition to GWRS, members have benefited from improved plan features including lower participant fees, an enhanced core lineup of investment options, a customized website and communications, enhanced online transactions and a local service center in San Francisco. Detailed information about the SFDCP begins on page 48.

Letter from the Executive Director



It is with great pride, that I present the many successful endeavors achieved by the Retirement System over this last fiscal year.

In my early tenure as Executive Director, I could not have imagined serving a more devoted group. SFERS' members firmly support the Retirement System, understanding that SFERS maintains as its highest priority, safeguarding the nest egg promised to the thousands of hard-working public employees across the City. Even now during public pension industry turmoil shaped by public scrutiny and complex reform legislation, the membership recognizes that it is these epic times that test the true strength and character of any organization.

While the past year has been marked by its fair share of economic and industry unrest, SFERS has shown great resiliency. The Trust returned 12.55% in fiscal year 2010, largely the result of an upturn in alternative and fixed income investment performance, as the Country labors toward economic recovery.

Most telling, the Fund remains sound with Plan assets valued at \$13.1 billion at fiscal year end, up more than \$1.0 billion from fiscal year 2009. The System paid more than three-quarters of a billion dollars in benefits to more than 23,000 retirees and their survivors during the fiscal year, evidence of the System's positive liquidity position.

Also, fiscal year 2010 was marked by an unprecedented number of retirements, virtually double the System's annual average. Driven by a combination of one of the most challenging budget cycles in decades running concurrent with the expiration of a major wellness benefit, staff is credited with processing more than 2,000 retirement applications for the fiscal year, nearly half of them occurring between the months of April and June.

The dedicated SFERS Member Services staff demonstrated great ingenuity in developing and delivering tools which streamlined the preparation and presentation of benefits calculations for members desiring retirement by fiscal year-end, pulling off an extraordinary accomplishment in the history of the Plan. It is the people at SFERS who represent the most significant facet of what truly makes the SFERS brand special!

Moving forward, SFERS will carry out plans to further cultivate its staff, upgrade technology and enhance communications as ways of innovating the administration of benefits for our membership, and to achieve the immediate and on-going priorities for the System.

Innovation is embedded in the SFERS vision making the outlook for the future very exciting on many fronts. For one, the technology team is leading the way for a new Enterprise Content Management (ECM) system that will upgrade document and knowledge management practices and streamline information retrieval processes. Additionally, development of a state-of-the-art website is in the pipeline which will support a new level of functionality, offering members a gateway to individual account data, self-service applications for estimating benefits, and on-line learning tools.

Members may be rest assured that providing high quality service to our members at a reasonable cost is pivotal as we strive to carry out our mission.

Respectfully,

A handwritten signature in dark ink, appearing to read "Gary A. Amelio". The signature is fluid and cursive, with a large, stylized "G" at the beginning.

Gary A. Amelio

Executive Staff



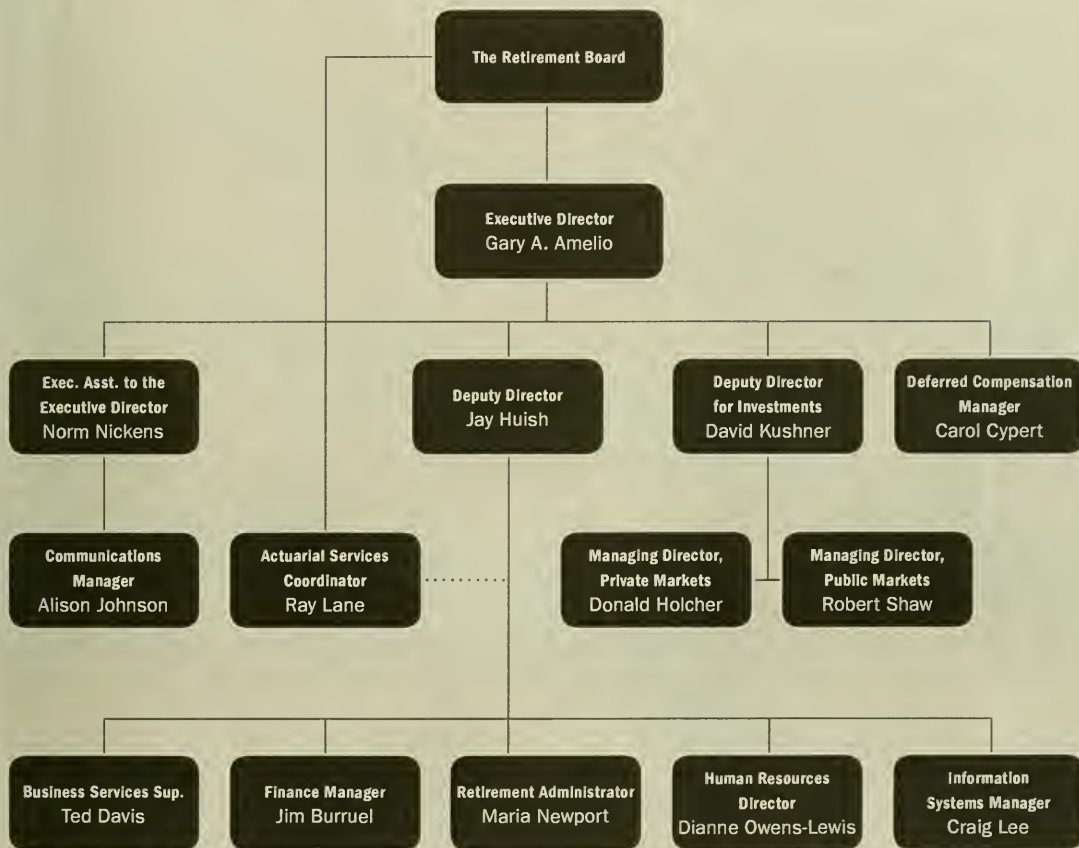
Left to right: David Kushner, Deputy Director for Investments; Carol Cypert, Deferred Compensation Manager; Gary A. Amelio, Executive Director; Norm Nickens, Executive Assistant to the Executive Director; and Jay Huish, Deputy Director.

Senior Management Staff

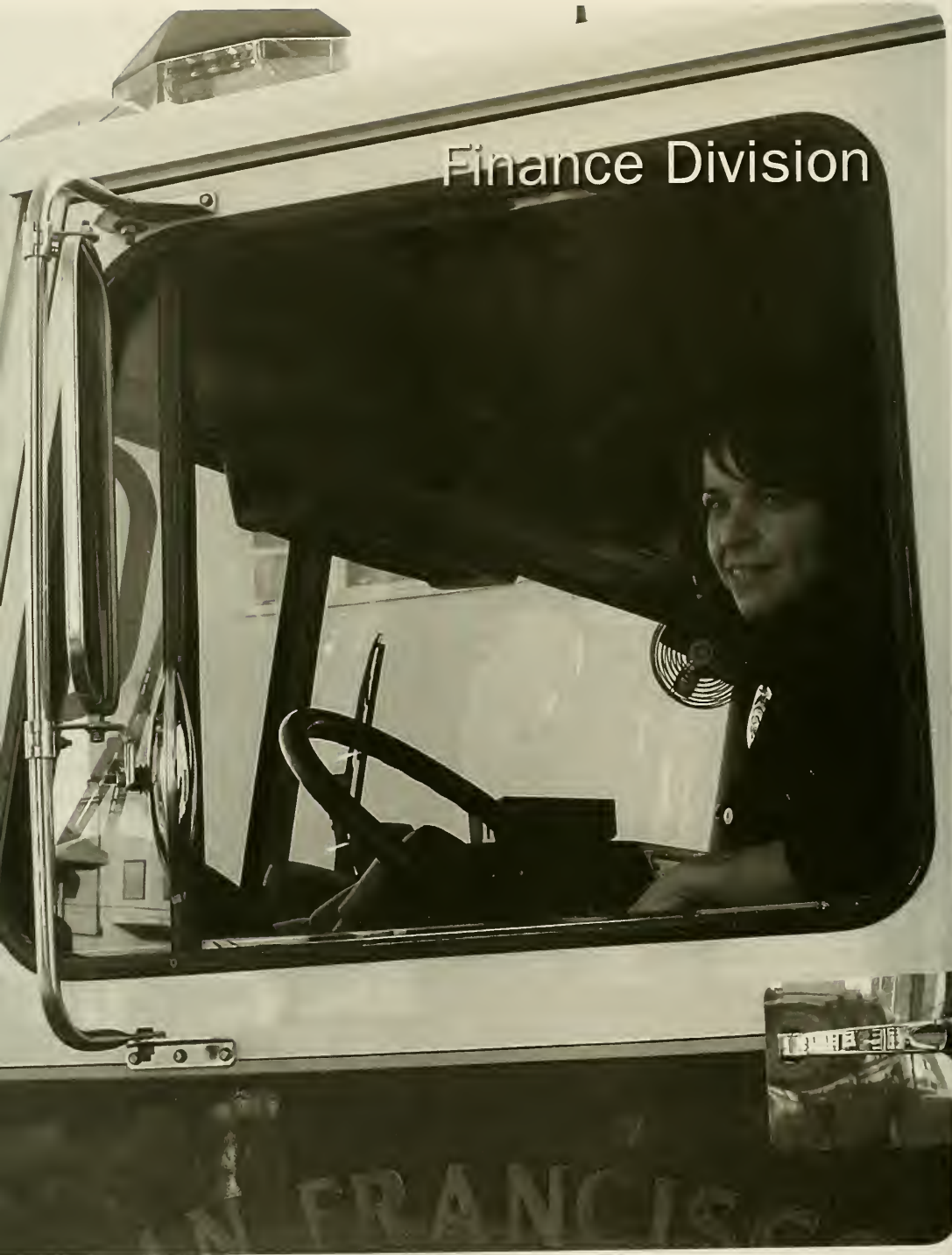


Top to bottom and left to right: Robert Shaw, Managing Director, Public Markets; Norm Nickens, Executive Assistant to the Executive Director; Jay Huish, Deputy Director; Maria Newport, Retirement Administrator; Craig Lee, Information Systems Manager; Jim Burrue, Finance Manager; Alison Johnson, Communications Manager; Gary A. Amelio, Executive Director; David Kushner, Deputy Director for Investments; Carol Cypert, Deferred Compensation Manager; and Ray Lane, Actuarial Services Coordinator. (not pictured: Dianne Owens-Lewis, Human Resources Director and Donald Holcher, Managing Director, Private Markets)

SFERS Organization Chart



Finance Division



FINANCE DIVISION

Oversees the System's Financial Position and Reports Operating Results

The Finance Division is responsible for oversight of operations and trust accounting as well as, providing management with key financial information to facilitate planning, control, and decision-making. The Finance Division also prepares and reports the Retirement System's financial statements in accordance with generally accepted accounting principles applicable to a public employee retirement system. Disclosures as required by Governmental Accounting Standards Board (GASB) are included in the financial statements and other required supplemental reports.

In addition to financial oversight, the Finance Division provides statistical and financial data used for actuarial projections, cash flow projections, and calculation of required city contributions to ensure that the employees' Retirement System is adequately funded at all times.

The accounting and financial reporting functions are divided into several major activities:

- Investments Accounting
- Member and Employer Contributions Accounting
- Benefits Payment Accounting
- Employees' Deferred Compensation Accounting
- Budget and Appropriations Control
- General Ledger and Financial Reporting

The audited Statements of Plan Net Assets and Statements of Changes in Plan Net Assets (pages 19 and 20) for Fiscal Years ended June 30, 2010 and 2009, demonstrate the financial condition of the pension trust fund. These financial statements provide a general overview of the City and County of San Francisco Employees' Retirement System's finances for the Plan Year ended June 30, 2010.



Readers who have questions regarding the financial information provided in this report are encouraged to contact SFERS and request the full set of audited Financial Statements and Supplemental Schedule as prepared by the City's independent auditors, Macias Gini & O'Connell, LLP.

SFERS Financial Highlights

The management of the City and County of San Francisco Employees' Retirement System is pleased to provide these highlights of the financial activities of the Plan for Fiscal Year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with the full Financial Statements and following supplementary information.

Fiscal Year 2010

- The assets of the Retirement System exceeded its liabilities at the close of the year ended June 30, 2010. The Plan held \$13,136,786,000 of net assets in trust for pension benefits. All of the net assets are available to meet the Retirement System's ongoing obligations to plan participants and their beneficiaries.
- The Retirement System's funding objective is to meet long term benefit obligations through contributions and investment income. As of July 1, 2009, the date of the last actuarial valuation, the funded ratio for the Retirement System was 97.0%. In general, this indicates that for every dollar of benefits promised, the Retirement System has approximately \$0.97 of assets available for payment.
- For the year ended June 30, 2010, the Retirement System's net investment gain of \$1,655,102,000 represents a 13.92% increase in plan net assets. (This return is based on plan net assets as of the beginning of the fiscal year.)
- Total net assets held in trust for pension benefits increased by \$1,250,058,000 or 10.5%, primarily as a result of market increase and the net difference between contributions received by the Plan and benefit payments made from the Plan.
- Members' contributions to the Plan amounted to \$189,948,000, a decrease of \$3,015,000 or 1.56% from the prior year.
- In order to maintain the fiscal soundness of the Plan, required employer contributions to the Plan totaled \$223,614,000 for the year ended June 30, 2010.
- Total deductions from the Plan were \$818,606,000, an increase of 8.9% from the prior year due to increased benefits paid during the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

The following discussion and analysis are intended to serve as an introduction to the Retirement System's financial statements, which are comprised of the following components:

1. **Statements of Plan Net Assets** are snapshots of account balances as of the close of the year – June 30, 2010 and 2009. They indicate the total assets as of June 30, 2010 and 2009, total liabilities at those dates and the net assets available for future payment of retirement benefits and operating expenses.
2. **Statements of Changes in Plan Net Assets** provide a view of additions to and deductions from the Plan during the years ended June 30, 2010 and 2009.

The statements of plan net assets and the statements of changes in plan net assets report information about the Retirement System's financial activities, prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized and payable in accordance with the terms of the Plan.

Investments are reported at fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis. Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of the Retirement System's partnership interests and real estate investments are based on net asset values provided by the general partners.

Investments in forward currency contract investments are commitments to purchase and sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges.

Additional information on the Retirement System's investments can be found in Note 4 of the full report.

Fiscal Year 2010

- Member contributions for the year ended June 30, 2010 decreased by \$3,016,000 or 1.56% lower than the prior year. This is primarily due to the reduction in Plan covered compensation as a result of workforce reductions implemented by the City as well as compensation give-backs negotiated by and between the City and County of San Francisco (City and County) and labor organizations representing Plan members in response to the City's budget shortfall.
- In order to maintain the fiscal soundness of the Plan, employer contributions representing 9.49% of covered pay were

required from the employers during the year ended June 30, 2010.

- Securities lending income increased by \$60,223,000 or 236.2% due to increased lending activities as a result of economic lending conditions and opportunities. The related rebates and expenses also show a corresponding increase in the amount of \$2,439,000, or 155.4%.
- Investment expenses for the year increased by \$7,325,000 or 20.2%, reflective of the overall investment portfolio performance which resulted in increased fees paid to investment managers during the year ended June 30, 2010.
- Benefit payments to Plan participants increased by \$63,661,000 or 8.7%, consistent with the unprecedented increase in the number of retirement allowances initiated and paid during the year as well as the Basic COLA paid to most retired members effective July 1, 2009.
- Refunds of contributions increased by \$2,056,000 or 30.6%, as a primary result of workforce reductions implemented by the City in response to the City's budget shortfall.
- Administrative expenses increased by \$882,000 or 6.8%, consistent with SFERS budgeted positions that were filled during the fiscal year.
- Other administrative expenses for OPEB decreased by \$53,000 or 4.31%. These OPEB expenses reflect the department's annual required contribution (ARC), interest on net OPEB obligation, and adjustment to the ARC, as allocated by the City and County based on city-wide payroll expenses for fiscal year 2010.

OTHER INFORMATION

The Retirement System has successfully defended three class action lawsuits related to final compensation through final appeals to the California Supreme Court. There continue to be on-going lawsuits against the Retirement System brought by individuals related to benefits being paid. The Retirement System continues to vigorously defend these lawsuits to protect the assets of the trust.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Retirement System's finances for the years ended June 30, 2010 and 2009. Questions regarding any of the information provided in this report or requests for additional financial information should be addressed to:

Gary A. Amello
Executive Director
City and County of San Francisco
Employees' Retirement System
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Statements of Plan Net Assets

YEARS ENDED JUNE 30, 2010 AND 2009

ASSETS	2010	2009
<i>(in thousands)</i>		
Deposits	\$ 16,433	\$ 34,170
Accounts Receivable		
Accounts Receivable-Airport Police Transfer from CalPERS	0	6,351
Contributions Receivable – Members	11,088	8,286
Contributions Receivable – City and County	8,075	5,344
Investment Income Receivable:		
Interest	25,681	27,526
Dividends	10,060	9,026
Securities lending	1,219	7,859
Receivable from brokers, general partners, others	155,528	185,725
Investments at Fair Value:		
Short-Term Investments	583,208	504,096
Debt Securities:		
U.S. Government Securities	1,177,473	1,053,552
Other Debt Securities	2,881,362	2,662,681
Equity Securities	5,733,593	5,114,484
Real Estate	1,009,001	1,181,932
Venture Capital	1,763,500	1,511,250
Forward Currency Contracts, Net	6,387	2,094
Investments in Lending Agents' Short-Term Investment Pool	964,858	837,074
TOTAL INVESTMENTS:	\$ 14,119,382	\$ 12,867,163
TOTAL ASSETS:	\$ 14,347,466	\$ 13,151,450
LIABILITIES	2010	2009
Payable to Brokers	\$ 219,697	\$ 366,728
DROP	8,653	4,143
Other Liabilities	15,828	12,020
Payable to Borrowers of Securities	966,502	881,830
TOTAL LIABILITIES:	\$ 1,210,680	\$ 1,264,721
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS:	\$ 13,136,786	\$ 11,886,729

Statements of Changes In Plan Net Assets

YEARS ENDED JUNE 30, 2010 AND 2009

ADDITIONS	2010	2009
	(in thousands)	
Member Contributions:		
Miscellaneous	\$ 157,416	\$ 161,386
Police	19,467	18,566
Police-Airport Transfer from CalPERS	0	6,350
Firefighter	13,065	13,012
Total Member Contributions	189,948	199,314
City and County Contributions:		
Miscellaneous	182,899	98,306
Police	24,326	12,910
Firefighter	16,389	8,535
Total City & County Contributions	223,614	119,751
Investment Income (Expenses):		
Interest	195,166	232,926
Dividends	139,161	144,815
Net Appreciation (Depreciation) in Fair Value of Investments	1,334,257	(3,815,666)
Securities Lending Income	34,730	(25,493)
Fixed Coupon Dollar Repurchase Agreement Income	0	(9,104)
Investment Expenses	(44,206)	(37,110)
Securities Lending Borrower Rebates and Expenses	(4,007)	(1,568)
Fixed Coupon Dollar Repurchase Agreement Finance Charges and Expenses	0	(1,650)
Investment Gain/(Loss), Net	1,655,101	(3,512,850)
Total Additions/(Deductions)	\$ 2,068,663	\$ (3,193,785)
DEDUCTIONS		
Benefits	792,776	732,342
Refunds of contributions	11,997	6,714
Administrative expenses	12,655	12,951
Other Admn. Expenses - OPEB	1,178	1,231
Total Deductions	\$ 818,606	\$ 752,007
Net increase/(decrease)	\$ 1,250,057	\$ (3,945,792)
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		
Beginning of year	\$ 11,886,729	\$ 15,832,521
End of year	\$ 13,136,786	\$ 11,886,729

Pension Fund Investment Income

FISCAL YEAR 2009-10

	REALIZED GAIN/LOSS	UNREALIZED GAIN/LOSS	TOTAL
INCOME			
Interest Earned			195,166,142
Dividends Earned			139,160,875
Securities Lending Income-Net			30,723,110
Dollar Roll Income – Net			0
Recaptured Commission Income			88,582
Real Estate Income			64,707,365
Alternative Investment Income			47,559,543
Investment Expenses			(44,205,743)
TOTAL INCOME¹:			\$ 433,199,874
NET APPRECIATION IN FAIR VALUES:			
Short-Term Securities	34,294,645	66,842,169	101,136,814
Equities	289,924,884	330,134,881	620,059,765
Debt Securities	65,949,131	430,314,380	496,263,511
Real Estate	(15,026,614)	(305,752,523)	(320,779,137)
Alternative Investments	29,189,659	265,737,657	294,927,316
Other Assets	2,100,280	28,109,318	30,209,598
TOTAL NET APPRECIATION:	\$ 406,431,985	\$ 815,385,882	\$ 1,221,817,867
TOTAL INCOME (including Net Appreciation):			\$ 1,655,017,741

1. Total income excludes employee and employer contributions.

Pension Fund Disbursements

PLAN YEAR 2009-10

PAYMENTS/EXPENSES	AMOUNT
Service Retirement Payments	\$ 593,048,332
Disability Retirement Payments	149,121,930
Proposition C – Cost of Living Adjustment	35,286,878
Death Allowance Payments	3,942,153
Death Benefits	2,533,571
Normal Contributions Paid as Death Benefit	3,227,239
Retired Annuitant Rolls (Option 1 Death Benefit)	1,848,572
DROP Program Accrued Retirement Benefits	6,993,932
Refunds of Contributions	8,770,031
Administrative Expenses: Retirement Services/Administration	13,833,088
TOTAL PAYMENTS & EXPENSES	\$ 818,605,726
INCREASE/(DECREASE) FROM FY 2008-09:	\$ 66,598,255

3 Year Comparison of Contributions

EMPLOYER (CITY AND COUNTY) CONTRIBUTIONS

MEMBER PLAN	PLAN YEAR 2009-2010	PLAN YEAR 2008-2009	PLAN YEAR 2007-2008
MISCELLANEOUS PLAN	\$ 182,899,285	\$ 98,305,683	\$ 111,548,066
FIREFIGHTER PLAN	16,388,581	8,534,677	9,398,037
POLICE PLAN	24,325,952	12,909,608	13,113,815
TOTAL	\$ 223,613,818	\$ 119,749,968	\$ 134,059,918

EMPLOYEE CONTRIBUTIONS

MEMBER PLAN	PLAN YEAR 2009-2010	PLAN YEAR 2008-2009	PLAN YEAR 2007-2008
MISCELLANEOUS PLAN	\$ 157,416,116	\$ 161,385,899	\$ 156,203,410
FIREFIGHTER PLAN	13,065,314	13,012,377	12,096,680
POLICE PLAN	19,466,843	24,916,935	16,822,537
TOTAL	\$ 189,948,273	\$ 199,315,211	\$ 185,122,627

3 Year Comparison of Actual Administrative Expenditures

RETIREMENT SERVICES & ADMINISTRATION DIVISIONS

DESCRIPTION OF EXPENDITURES	RETIREMENT SERVICES/ADMINISTRATION		
	2009-10	2008-09	2007-08
Personnel Services	\$ 9,270,816	\$ 8,624,045	\$ 7,194,372
Equipment Purchase	19,300	0	39,323
Materials and Supplies	162,797	167,372	220,590
Services of Other Departments	1,822,153	1,675,812	3,470,726
Other Services	2,558,022	2,484,098	1,669,669
TOTAL	\$ 13,833,088	\$ 12,951,327	\$ 12,594,680

INVESTMENT DIVISION

DESCRIPTION OF EXPENDITURES	INVESTMENT DIVISION		
	2009-10	2008-09	2007-08
Personnel Services	\$ 1,977,608	\$ 1,595,310	\$ 1,608,135
Equipment Purchase	0	0	48,186
Materials and Supplies	2,459	1,689	9,255
Services of Other Departments	727,978	825,417	409,449
Other Services	40,899,063	37,201,644	48,444,904
TOTAL	\$ 43,607,108	\$ 39,624,060	\$ 50,519,929

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Actuarial Services Division



ACTUARIAL SERVICES DIVISION

Measuring the Actuarial Value of Plan Assets and Liabilities in Accordance with a Legally Mandated and Actuarially Prudent Funding Plan

OVERVIEW

The Board appoints the in-house actuary (Actuarial Services Coordinator) and contracts with an independent consulting actuary to provide actuarial expertise for the operation of the Retirement System. The Consulting Actuary prepares and signs all professional actuarial valuations needed for prudent administration of the System, including the annual Actuarial Valuation. The actuarial valuation measures the funding status of the plan, and recommends the level of City contributions for the coming fiscal year, both in accordance with actuarial method and assumptions previously approved by the Board. The Board has final responsibility for approving the City contribution rate each year. The Actuarial Services Coordinator is directly responsible to the Board for managing and overseeing the actuarial function for the System, including the Actuarial Valuation and other activities including:



- Compiling and testing of membership data submitted to the consulting actuary for the actuarial valuation.
- Coordinating the consulting actuary's preparation of the annual Actuarial Valuation presented to the Retirement Board at its January meeting.
- Preparation of required disclosures of actuarial information required by the Governmental Accounting Standards Board (GASB) for SFERS financial statements.
- Coordinating the consulting actuary's preparation of actuarial factors and other data needed to administer benefits, including benefit conversion factors, cost of living increases and the credited interest rate applied to member accounts.
- Coordinating the consulting actuary's preparation of experience studies to evaluate and select actuarial assumptions and methods used in the annual actuarial valuation.
- Preparation and presentation of educational sessions on actuarial subjects for Board members and executive management, as needed.

The following pages contain key results from the most recent Actuarial Valuation, as of July 1, 2010.

Actuarial Assumptions and Method

The main actuarial assumptions used to measure the System's liabilities for future benefits payments were:

Investment Return	7.75% per year
Wage Inflation	4.00% per year
Price Inflation	3.50% per year
Mortality	RP 2000 Mortality Tables

The actuarial funding methods used are as follows:

- entry age normal cost method
- unfunded liability due to benefit increases amortized as a level percentage of payroll over 20 years
- unfunded liability due to actuarial gains and losses, assumption changes and miscellaneous items amortized as a level percentage of payroll over 15 years

The assets were valued using a 5-year phase-in of investment return greater than or less than the actuarial assumed investment return.

KEY RESULTS

Using the method and assumptions detailed above, the key findings of the latest valuation were:

FUNDED STATUS AS OF JULY 1, 2010

Actuarial Liability	\$17,643,400,000
Actuarial Value of Assets	\$16,069,100,000
Unfunded Actuarial Liability <Surplus>	\$ 1,574,300,000
Funded Status (assets/liabilities)	91.1%

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES

The retirement contribution rates paid by the City in Fiscal Year 2009-10 were derived from the following actuarial valuation results as of July 1, 2008:

Normal Cost	18.16%
Unfunded Actuarial Liability	(7.03)%
Remaining cost of propositions	5.41%
Employee Contributions	7.50%
Administrative Expenses	0.45%
Board Approved City Contribution Rate	9.49%

Historical Employer Contribution Rates

The contribution rates paid by the City and County of San Francisco to fund the pension plan for the City's retired miscellaneous and safety employees has fluctuated over the years. Below is a table of contribution rates dating back more than 30 years.

EMPLOYER (CITY AND COUNTY) CONTRIBUTION RATES¹

As a Percentage of Covered Payroll

Effective Date	Miscellaneous	Police	Fire
July 1, 1981	16.99	88.36	90.48
July 1, 1982	17.00	92.50	91.00
July 1, 1983	17.00	96.00	105.00
July 1, 1984	18.00	91.00	104.00
July 1, 1985	18.00	92.00	106.00
July 1, 1986	18.00	92.00	106.00
July 1, 1987	18.00	86.00	99.00
July 1, 1988	16.00	81.5	96.50
July 1, 1989	15.00	79.00	92.00
July 1, 1990	15.00	78.00	91.00
July 1, 1991 – February 14, 1991	13.00	67.00	79.00
February 15, 1991 – June 30, 1992	13.00	34.70	54.60
July 1, 1992 – August 14, 1992	12.67	50.57	67.49
August 15, 1992 – January 29, 1993	12.67	24.04	49.29
January 30, 1993 – June 30, 1993	9.08	29.91	43.17
July 1, 1993 – December 31, 1993	7.36	26.92	40.02
January 1, 1994 – June 30, 1994	5.39	19.76	19.47
July 1, 1994	5.39	19.76	19.47
July 1, 1995 – December 31, 1995	4.98	14.79	12.44
January 1, 1996 – June 30, 1996	4.29	12.69	10.58
July 1, 1996	1.83	0.00	0.00
July 1, 1998 – June 30, 2004	0.00	0.00	0.00
July 1, 2004	4.48	4.48	4.48
July 1, 2005	6.58	6.58	6.58
July 1, 2006	6.24	6.24	6.24
July 1, 2007	5.91	5.91	5.91
July 1, 2008	4.99	4.99	4.99
July 1, 2009	9.49	9.49	9.49
July 1, 2010	13.56	13.56	13.56
July 1, 2011	18.09	18.09	18.09

1. Contribution rates beginning 7/1/80 and after, are composite rates for Old and New groups.

Investment
Division

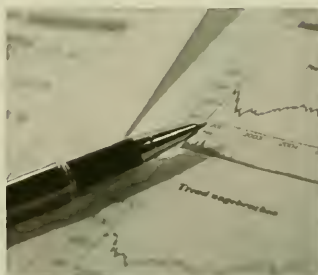


Investment Division

Dedicated to securing, protecting and prudently investing the pension trust assets

OUTLOOK

Aggressive Government monetary and fiscal stimulus programs produced a substantial financial market rebound in the Fiscal Year ended June 30, 2010. As a result the San Francisco Employees' Retirement System ("System") experienced a much improved return of 12.55% on investments for the Fiscal Year. With interest rates remaining at record lows, sluggish economic growth and high unemployment, the outlook for the financial markets is very uncertain. The 2010 mid-term elections and expiring tax cut programs in a contentious political environment have resulted in fragile and highly volatile market conditions. The System continues to adhere to investment policies and programs designed to take a longer term view, and manage through both difficult and prosperous times with a disciplined approach to the investment of the System's assets.



During the Fiscal Year, Staff, in conjunction with external consultants, continued to make progress on the System's Risk Management capabilities. Staff and consultants also reviewed the Fund's sub-asset class allocation in the Public Market (Equities and Fixed Income) segments and made minor adjustments.

OVERVIEW

The Retirement System's investment strategies and the composition of its aggregate portfolio have changed considerably over the years since its inception. However, the Retirement System's investment objective has essentially remained the same: to **maximize long-term rates of return on investments within prudent guidelines.**

In order to achieve the investment objective, the Retirement Board approved the following asset allocation policy in September 2009:

Asset Class	Policy Target	Policy Range	Actual
US Equity	26%	22-30%	24.5%
International Equity	23%	20-26%	21.6%
Global Fixed Income	25%	20-35%	31.5%
Alternative Assets	14%	10-18%	13.5%
Real Estate	12%	9-15%	8.2%
Cash	0%	0-1%	0.7%

Percentages based on total plan assets minus dedicated cash, STEP segregated cash and currency overlay.

INVESTMENT PERFORMANCE HIGHLIGHTS FOR FISCAL YEAR ENDED JUNE 30, 2010

The Retirement System investment portfolio returned 12.55% for the fiscal year ended June 30, 2010, outperforming the policy benchmark return of 11.38%. All asset classes posted positive returns for the Fiscal Year, except for Real Estate.

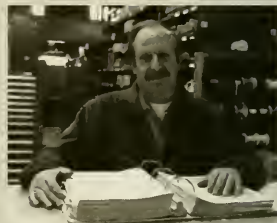
EQUITY

The combined public equity portfolio returned 13.61% for the fiscal year, underperforming the total equity policy benchmark return of 13.81% by 20 basis points. The US equity portfolio return was 15.64%, which lagged the Russell 3000 benchmark return of 15.72% by 8 basis points. The International equity portfolio (including currency overlay) rose 12.02%, outperforming the benchmark return of 11.49% by 53 basis points. Without currency overlay, the international equity portfolio lagged by 24 basis points (11.25% vs. 11.49%).

2009-10 EQUITY MANAGER CHANGES:

- Perimeter Capital Management. Retained in January 2010 for U.S. Small Cap Growth Equities with a mandate of \$132 million.
- FX Concepts. Retained as an active currency manager in January 2010 with a notional allocation of 20% of SFERS' international equity assets;
- Lee Overlay. Retained as an active currency manager in January 2010 with a notional allocation of 40% of SFERS' international equity assets;
- Blackrock. Retained as an active currency manager in January 2010 with a notional allocation of 40% of SFERS' international equity assets. Blackrock's mandate also includes a dedicated allocation to emerging market currencies.
- AXA Rosenberg Investment Management. In April 2010, SFERS was informed of an error in the quantitative modeling

process employed by AXA. In May 2010, the Retirement Board approved Staff's recommendation that AXA be terminated as an active international small cap equity manager. Concurrently, Staff began the process of seeking replacement managers. The assets (approximately \$298 million) are currently being managed by Northern Trust in a passive international small cap index portfolio.



FIXED INCOME

The Fixed Income Portfolio rebounded sharply in the Fiscal Year ended June 30, 2010. The bond portfolio posted a 19.84% return for the year, outperforming the policy benchmark by 9.24%.

During the Fiscal Year, approximately \$408 million was raised from various Fixed Income portfolios for the purpose of providing for the System's benefit payments and to fund other investment needs. Blackrock Investment Management was retained to manage a Barclays Capital Aggregate Index Fund, with funding anticipated to start in fiscal year 2010/2011.

Due to performance concerns and organizational issues, the Retirement Board elected to terminate Brookfield-Hyperion, a High Yield CMBS manager, in November 2009. For similar reasons, an investment in the TCW Special Mortgage Credits Fund was withdrawn in February 2010. In addition, in March 2010, SFERS terminated an investment in the Western Asset Management Levered Loan Opportunity Fund.

In September 2009, the Retirement Board approved changes in asset allocation policy, which resulted in an expansion of target ranges for the Fixed Income Portfolio target ranges with the objective of achieving more investment management flexibility. The role

of the Internal Fixed Income portfolio was also reviewed and the Retirement Board approved revised Investment Guidelines to enhance the quality and liquidity of this SFERS bond portfolio.

ALTERNATIVE INVESTMENTS

In December 2009, the Retirement Board approved the annual investment plan for the Alternative Investment Program recommending an investment pace of \$275 million for calendar year 2010. During the fiscal year, new commitments were invested in a diversified set of private equity limited partnerships sponsored by investment management firms currently managing money for SFERS or newly selected investment management firms with strategies aimed at enhancing the portfolio. At fiscal year-end, the market value for alternative investments was \$1.7 billion or 13.5% of the total fund investments assets.

The alternative investment portfolio returned 20.27% for the fiscal year. Over a ten-year period, the portfolio earned a 6.48% annualized return, exceeding the performance benchmark (the S&P 500 + 5% over a rolling ten-year period) by 288 basis points.

FY 2009-10 ALTERNATIVE INVESTMENTS COMMITMENTS:

Buy Out:

- CHAMP III, LP, \$18 million; March 2010
- Bertram Capital II, LP, \$20 million: June 2010

Venture:

- Polaris Venture Partners VI, LP, \$20 million: March 2010
- IVP XIII, LP, \$30 million: May 2010

Special Situations:

- Energy Capital Partners II, LP, \$20 million: October 2009
- OCM Opportunities VIII, LP, \$30 million: August 2009

- Squadron Asia Pacific II, LP, \$20 million: December 2009
- ABRY Senior Equity III, L.P, \$20 million: March 2010

REAL ESTATE

In May 2009, the Retirement Board approved the Annual Real Estate Investment Plan and Strategic Plan for Real Estate. The Plans provide for a target allocation of \$300 million in private real estate investments and an additional \$50 million allocation in public real estate investments. In addition, the Retirement Board approved a search to potentially select and retain another separate account manager. A Request for Qualifications was issued to facilitate the search.

For the Fiscal Year ended June 30, 2010, the real estate portfolio had one-year and five-year returns of (21.65%) and (1.67%), below the benchmarks of (8.10%) and 5.69%, respectively. SFERS' benchmark is 1.5% above the NCREIF Property Index, as reported by the National Council of Real Estate Investment Fiduciaries ("NCREIF"). The underperformance reflects the impact of unrealized losses taken from appraisals during the year performed by certified professionals and the negative impact of leverage on assets with declining values. At fiscal year-end, the market equity value for the real estate investments was \$1.1 billion, or 8.1% of the total fund investment assets.

SFERS continues to review investment opportunities that fit strategically with the existing portfolio, anticipate global demographic, technological, and government regulatory trends, and offer competitive risk adjusted returns for the targeted hold period.

2009-2010 REAL ESTATE COMMITMENTS:

- AEW Partners VI, L.P., \$25 million
- AMB U.S. Logistics Fund, L.P., \$50 million

As of June 30, 2010, approximately 13% of SFERS trust assets were managed internally, including \$675 million in domestic bonds and \$1.03 billion in domestic equities. The balance of the portfolio was managed externally by investment firms that specialize in specific asset classes including international and domestic equities, global fixed income, alternative investments and real estate.

SAN FRANCISCO EMPLOYEES' RETIREMENT SYSTEM

Summary of Investments

at June 30, 2010

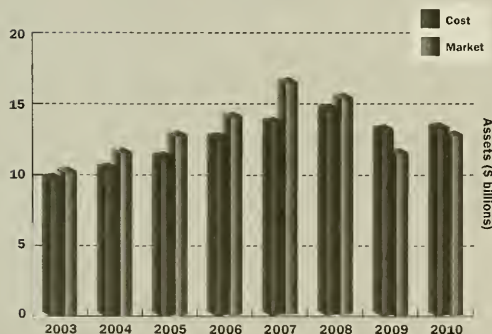
at June 30, 2009

Asset Class	Market Value	% of Portfolio	Market Value	% of Portfolio
Equities				
U.S. Equities	3,159,882	24.2%	2,982,072	25.1%
International Equities	2,838,828	21.8%	2,291,524	19.3%
Total Equities	5,998,710	46.0%	5,273,596	44.4%
Global Fixed Income	4,064,841	31.2%	3,557,122	29.9%
Alternative Investments				
Buyout	897,290	6.9%	737,490	6.2%
Venture	493,640	3.8%	479,066	4.0%
Special Situations	346,670	2.7%	294,694	2.5%
Total Alternative	1,737,600	13.3%	1,511,250	12.7%
Real Estate	1,055,932	8.1%	1,181,932	9.9%
Cash	186,035	1.4%	362,829	3.1%
Total Investment Portfolio	13,043,118	100.0%	11,886,729	100.0%

Investment portfolio totals are net of management fees and expenses and therefore does not foot to pension net assets reported in SFERS audited financial statements.

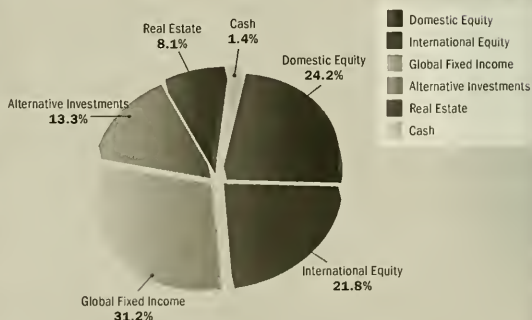
PENSION FUND NET ASSETS

as of June 30, 2010



ASSET ALLOCATION BY MARKET VALUE

as of June 30, 2010



For the Fiscal Year ended June 30, 2010, the Investment portfolio of the Retirement System enjoyed a strong rebound as markets continued to improve. With the exception of Real Estate (-21.65%), all of the asset classes rose – led by Alternative Investments (+20.27%) and Fixed Income (+19.84%). Total Equities climbed a more modest 13.61%.

INVESTMENT PORTFOLIO PERFORMANCE

Annualized Returns for the Periods ending 6/30/2010

(Net of fees and expenses)

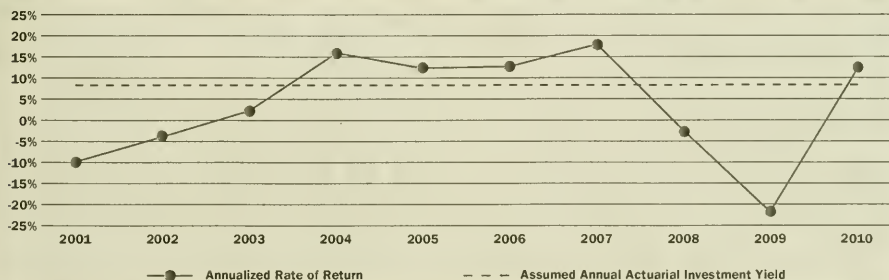
	1-YEAR	5-YEARS	10-YEARS
Domestic Equity	15.64%	-1.00%	-0.90%
Benchmark: Russell 3000	15.72%	-0.48%	-0.92%
International Equity	12.02%	2.23%	0.80%
Benchmark: International Equity Policy ¹	11.49%	3.80%	2.09%
Global Fixed Income	19.84%	4.17%	6.78%
Benchmark: Fixed Income Policy ²	10.60%	5.48%	6.51%
Real Estate	-21.65%	-1.67%	3.73%
Benchmark: Gross NPI +1.5% ³	-8.10%	5.69%	8.62%
Alternative Assets	20.27%	14.70%	6.48%
Benchmark: Alternative Investments Policy ⁴	20.09%	4.18%	3.60%
TOTAL FUND	12.55%	2.73%	2.80%
Weighted Policy Benchmark ⁵	11.38%	3.40%	3.28%

Source: The Northern Trust Company

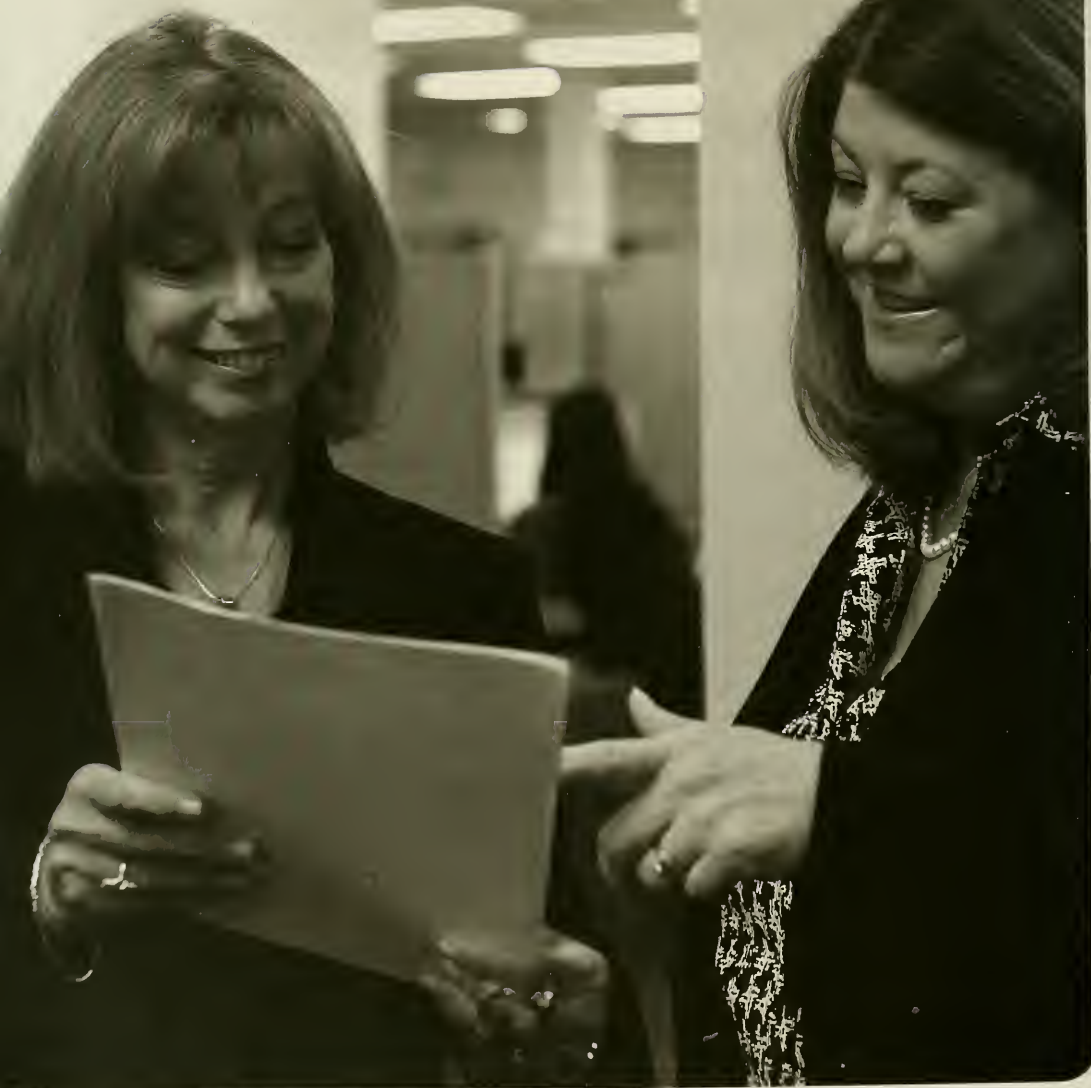
1. Int'l Equity Policy consists of 100% MSCI ACWI IMI Ex-US (ND) from 09/30/08 through current, 100% MSCI ACWI Ex-US (NO) from 01/31/2001 through 09/30/2008, 100% MSCI ACWI Ex-US (GO) previous to 01/31/2001.
2. Total Fixed Income Policy consists of 100% BC Universal from 6/30/07 through current, 75% BC Universal/25% BC Global Aggregate from 9/30/05 to 6/30/07, 80%/20% from 9/30/02 to 9/30/05, 100% BC Universal 9/30/00 to 9/30/02, and 100% 8C Aggregate previous to 9/30/00.
3. NPI (NCREIF Property Index) Returns are lagged one quarter. The benchmark NPI+150 bps applies to all return periods. For periods less than one year, the excess 150 basis points are prorated.
4. Alt. Inv. Policy consists of the S&P500 + 600 bps through 12/31/02, + 500 bps thereafter. For periods less than one year, the excess 500 basis points are prorated.
5. The current SFERS Weighted Policy consists of 26% Russell 3000, 23% MSCI ACWI IMI Ex-US (ND), 25% BC US Universal, 12% SFERS Real Estate Benchmark and 14% SFERS Alternative Investments Benchmark.

TEN-YEAR ANNUALIZED RATES OF RETURN

Periods ending June 30



Member Services Division



MEMBER SERVICES DIVISION

Providing members with information and education about retirement benefits and services

OVERVIEW

SFERS employs a dedicated team of knowledgeable professionals who offer extensive services to SFERS members and their beneficiaries. Under the direction of the Deputy Director, the Member Services Division conducts new member enrollments, prepares benefits calculations, counsels active and retired members, provides pre-retirement education, as well as oversees member communications, retiree payroll and tax reporting, termination benefits and death payments.



DIVISION REPORT

The member services team is the face of the organization—the front line and back bone of Retirement System operations, each year providing thousands of SFERS members with information and tools to help them effectively plan and prepare for retirement. SFERS strives to provide this flagship group the resources best suited to serve the needs of SFERS dynamic membership.

In addition to processing a record number of retirement applications during fiscal year 2009-10, Member Services staff enrolled over 1,500 new members, counseled more than 4,000 members on retirement and buyback opportunities, and conducted four educational seminars for 500 plus members planning to retire within five years.

Currently, SFERS is working to improve the SFERS website to provide members broader access to SFERS information, forms and services.

SFERS Plan Membership

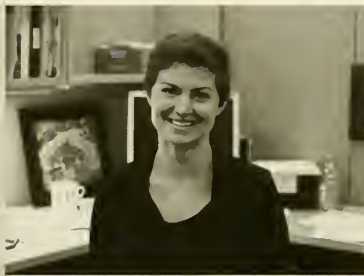
The Retirement System administers six benefit structures for the City and County of San Francisco's pension plan according to employee group: Police New Plan and Old Plan, Firefighter New Plan and Old Plan, and Miscellaneous New Plan and Old Plan. Generally, employees who became members of SFERS prior to City Charter amendments passed by the voters in November 1976 are covered under the Old Plans, whereas employees who became SFERS members after the November 1976 Charter amendments are covered by the New Plans.

While the November 1976 Charter amendments established the New Plans, New Plan benefits currently in effect for Miscellaneous members were established by Charter amendment passed in November 2000, and New Plan benefits currently in effect for Safety members were established by Charter amendment passed in November 2002.

In June 2010, voters approved a Charter amendment establishing a new level of Plan benefits effective for employees hired on or after July 1, 2010. Details of the benefits changes are highlighted in the Retirement Board Action During Fiscal Year 2009-10 section under Litigation/Legislation on page 9. A description of each Plan by Charter section is found on page 39.

SFERS members include employees of the City and County of San Francisco, the San Francisco Unified School District, the San Francisco Community College District, as well as Trial Courts.

Beginning on September 1, 1995, employees hired into positions not eligible for SFERS membership, who earn 1040 hours of compensation or more during any 12-month period, become eligible for



retirement membership on the first day of the pay period following the pay period in which the member earns 1040 hours of compensation.

On January 1, 2003, members of the Safety Old Plans were eligible to become members of SFERS under San Francisco Charter Sections A8.597 and A8.595 respectively, while members of the Safety New Plans automatically became members of SFERS under San Francisco Charter Sections A8.598 and A8.596 under provisions of Proposition H passed by the voters in November 2002.

Members of the Miscellaneous Plan are also members of the Social Security System, beginning September 1959 (San Francisco Charter Section A8.514). In the past, members covered under Social Security were able to elect to reduce their contributions to the Retirement System by a portion of the amount contributed to Social Security annually. These members accrued account shortages and will have reduced pensions upon retirement if the shortages are not paid prior to retirement. This reduced contribution provision is no longer available to SFERS members.

Additionally, employees in certain job classifications of the City and County of San Francisco are eligible for membership in other retirement systems. For example, deputized personnel of the Sheriff's Department, institutional police officers, district attorney investigators, and probation officers are members of CalPERS; full-time school teachers hired after June 30, 1972 are members of the State Teachers Retirement System.

SFERS PLAN BENEFITS STRUCTURE:

Membership Group	Service Retirement Benefit
Miscellaneous Plan A8.509 <ul style="list-style-type: none"> Miscellaneous employees who became members before November 2, 1976 	2.3% @ age 62; maximum benefit 75% of final compensation
Miscellaneous Plan A8.587 <ul style="list-style-type: none"> Miscellaneous employees who became members on or after November 2, 1976 	2.3% @ age 62; maximum benefit 75% of final compensation
Miscellaneous Plan A8.600 <ul style="list-style-type: none"> Miscellaneous employees who became members on or after July 1, 2010 	2.3% @ age 62; maximum benefit 75% of final compensation
Police Plan A8.559 <ul style="list-style-type: none"> Police officers who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003 	55% of final compensation; 4% each additional year over 25 years of service; maximum benefit 75% of final compensation
Police Plan A8.559-14 and A8.586 <ul style="list-style-type: none"> Police officers who elected 1981 Proposition F (Buyout) benefits 	2.7% @ age 55; maximum benefit 75% of final compensation
Police Plan A8.595 <ul style="list-style-type: none"> Police officers who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
Police Plan A8.597 <ul style="list-style-type: none"> Police officers who became members on or after November 2, 1976 and were eligible for Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
Police Plan A8.602 <ul style="list-style-type: none"> Police officers who became members on or after July 1, 2010 	3.0% @ age 55; maximum benefit 90% of final compensation
Fire Plan A8-585 <ul style="list-style-type: none"> Firefighters who became members before November 2, 1976 and did not elect Proposition H benefits effective January 1, 2003 	55% of final compensation; 4% each additional year over 25 years of service; maximum benefit 75% of final compensation
Fire Plan A8.585-14 and A8.588 <ul style="list-style-type: none"> Firefighters who elected 1981 Proposition F (Buyout) benefits 	2.7% @ age 55; maximum benefit 75% of final compensation
Fire Plan A8.596 <ul style="list-style-type: none"> Firefighters who became members before November 2, 1976 and elected Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
Fire Plan A8.598 <ul style="list-style-type: none"> Firefighters who became members on or after November 2, 1976 and were eligible for 2002 Proposition H benefits effective January 1, 2003 	3.0% @ age 55; maximum benefit 90% of final compensation
Fire Plan A8.601 <ul style="list-style-type: none"> Firefighters who became members on or after July 1, 2010 	3.0% @ age 55; maximum benefit 90% of final compensation

SFERS Membership Summary

SFERS active membership falls within three categories:

1. Active Members who are currently on City and County Payroll
2. Vested Members who have left City and County employment with five or more years of SFERS service, but have left their contributions on account with SFERS and elected to receive a vested retirement allowance at a later date
3. Reciprocal Members who, after leaving City and County employment, have accepted employment with a reciprocal employer and elected to leave their contributions on account with SFERS regardless of SFERS service to be eligible to receive a reciprocal benefit when they retire concurrently from both employers

As of June 30, 2010, there were 29,990 members of the Miscellaneous Plans, 2,260 members of the Police Plans and 1,465 members of the Firefighter Plans.

SFERS ACTIVE MEMBERSHIP as of June 30, 2010

PLAN MEMBERSHIP GROUP	NUMBER OF MEMBERS			
	ACTIVE	VESTED	RECIPROCAL	TOTAL
MISCELLANEOUS PLAN A8.509 MEMBERS BEFORE NOVEMBER 2, 1976	223	58	5	286
MISCELLANEOUS PLAN A8.587 MEMBERS ON OR AFTER NOVEMBER 2, 1976	24,466	4,325	913	29,704
POLICE PLANS A8.559 & A8.595 MEMBERS BEFORE NOVEMBER 2, 1976	10	0	0	10
POLICE PLAN A8.597 MEMBERS ON OR AFTER NOVEMBER 2, 1976	2,129	83	38	2,250
FIREFIGHTER PLANS A8.585 & A8.596 MEMBERS BEFORE NOVEMBER 2, 1976	9	0	0	9
FIREFIGHTER PLAN A8.598 MEMBERS ON OR AFTER NOVEMBER 2, 1976	1,385	49	22	1,456
TOTALS:	28,222	4,515	978	33,715

RETIREMENT STATISTICS
Plan Year Ended June 30, 2010

The following tables and annotations provide statistical information regarding the types and demographics of the SFERS retirements processed during Plan Year 2009-10, as well as benefits payment summaries and comparisons.

The following table summarizes major activities of the SFERS Retirement Services Division during Plan Years 2009-10 and 2008-09:

Activity	2009-10	2008-09
Retirement estimates requests	1,227	938
Retirement appointments	2,734	2,199
Retirement applications processed	2,024	1,087
Buyback appointments	1,326	1,818
Personnel transactions:	1,557	1,822
New members (new hires)	700	941
New members (1040 hours membership)	634	626
Rehires	76	115
Police recruits	107	118
Fire recruits	17	22
Sheriff recruits	23	-
Pre-retirement seminars	4	6
Registered attendees at pre-retirement seminars	542	756
Mid-career retirement planning seminars	0	1
Registered attendees at mid-career seminars	0	90
New member retirement planning seminars	0	1
Registered attendees at new member seminars	0	62

The Retirement Services Division sponsored and conducted four pre-retirement seminars during Plan Year 2009-10. These seminars provided individualized benefits counseling for 541 Miscellaneous Plan members considering retirement within the next five years. Retirement staff also sponsored and conducted one mid-career retirement planning seminar for Miscellaneous Plan members. Retirement staff also participated in retirement seminars sponsored by the Police Officers Association the Fire Department, the Unified School District, the Community College District, Human Services Department and the Public Utilities Commission (including Hetch Hetchy).

NEW RETIREMENTS
Effective During Plan Year Ended June 30, 2010

MEMBER GROUP	SERVICE	VESTING	INDUSTRIAL DISABILITY	ORDINARY DISABILITY	TOTAL
MISCELLANEOUS	1,210	186	N/A	14	1,410
POLICE	55	3	5	0	63
FIREFIGHTER	63	0	4	0	67
TOTALS	1,328	189	9	14	1,540

The total number of new retirements effective during Plan Year 2009-10 was 37.3% higher than retirements in Plan Year 2008-2009. Service retirements represent 86.2% of the total of new retirements processed.

Miscellaneous retirements represented 91.6% of the total retirements processed in Plan Year 2009-10, an increase from 88.4% in Plan Year 2008-09.

Police retirements represented 4.1% of the total retirements processed in Plan Year 2009-10, a decrease from 5.5% in Plan Year 2008-09.

Firefighter retirements represented 4.4% of the total retirements processed in Plan Year 2009-10, a decrease from 6.1% in Plan Year 2008-09.

DEFERRED RETIREMENT OPTION PROGRAM (DROP)
Effective During Plan Year Ended June 30, 2010

RANK	ELECTED PARTICIPATION	TERM OF DROP	EXITED PARTICIPATION
POLICE OFFICER	66	36 months	9
SERGEANT	20	24 months	11
INSPECTOR	25	24 months	6
LIEUTENANT	6	12 months	4
CAPTAIN	6	12 months	1
TOTALS	123		31

1. Total service retirements in Plan Year 2009-10 include applications for industrial or ordinary disability which have qualified for service retirement but are pending decision on disability application.

TOTAL RETIREMENT ALLOWANCES
Retired Members and Survivor Continuation Benefits
as of June 30, 2010

MEMBER CATEGORY	SERVICE RETIREMENTS	DISABILITY RETIREMENTS ¹	DEATH IN LINE OF DUTY	TOTAL
MISCELLANEOUS	16,957	1,915	N/A	18,872
MEMBER	1,421	1,405	N/A	15,826
CONTINUATION	2,536	510	N/A	3,046
POLICE	1,367	801	40	2,208
MEMBER	1,018	517		1,535
CONTINUATION	349	284	40	673
FIREFIGHTER	1,028	989	32	2,049
MEMBER	746	711	-	1,457
CONTINUATION	282	278	32	592
TOTAL	19,352	3,705	72	23,129

MONTHLY RETIREMENT BENEFITS PAYABLE
Retired Members and Survivor Continuation Benefits
as of June 30, 2010

MEMBER	SERVICE RETIREMENTS	DISABILITY RETIREMENTS ¹	DEATH IN LINE OF DUTY	TOTAL
MISCELLANEOUS	\$ 39,033,226	\$ 3,161,264	N/A	\$42,194,490
POLICE	8,080,310	4,082,450	187,437	12,350,197
FIREFIGHTER	6,797,415	5,962,671	125,828	12,885,914
TOTAL	\$53,910,951	\$13,206,385	\$313,265	\$67,430,601

1. Includes Ordinary Disability (Miscellaneous, Police, and Fire) and Industrial Disability (Police and Fire).

Disability Retirement Hearing Report

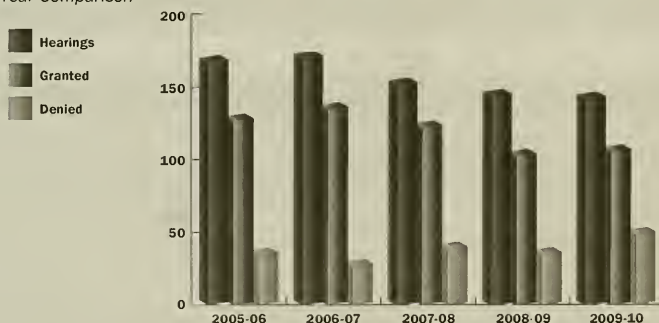
A member or, legal agent acting on behalf of the member can initiate a claim for disability retirement (ordinary and industrial) by filing an application with the SFERS. The Retirement System makes a preliminary determination about the claim, and if in order, forwards the application to the City Attorney's office for review. If uncontested by SFERS counsel, the application is referred to the American Arbitration Association or the Office of Administrative Hearings for hearing. All such applications shall be adjudicated by an independent hearing officer, in accordance with the provisions of San Francisco Charter A8.518. The table below provides a summary of disability retirement hearings in the fiscal year ending June 30, 2010.

HEARING OFFICER REPORT¹ Fiscal Year Ended June 30, 2010

CASES	TOTAL # OF HEARINGS	TOTAL # GRANTED	TOTAL # DENIED
Industrial Disability Retirements	69	53	27
Ordinary Disability Retirements	71	50	9
Death Benefits	1	3	0
Petitions For Rehearing	2	0	12
CalPERS	5	4	2
Reinstatements	0	0	0
Total	148	110	50

1. The Hearing Officer Report represents cases processed in the period July 1, 2009 - June 30, 2010, and may reflect cases pending from prior periods.

HEARING OFFICER REPORT Five-Year Comparison



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San Francisco

457(b) Deferred Compensation Plan

SAN FRANCISCO 457(b) DEFERRED COMPENSATION PLAN

Providing members with opportunities to maximize retirement savings

The San Francisco 457(b) Deferred Compensation Plan (SFDCP), was adopted in 1979 and allows City employees to voluntarily elect to defer receipt and taxation of a portion of their regular earnings until after they retire or separate from service. This method of tax deferral has become an increasingly popular vehicle utilized by City employees as they save for their future.

The Plan offers a diverse selection of 18 core investment funds plus access to a self-directed brokerage option.

The Deferred Compensation Division oversees and monitors the City's 457(b) Deferred Compensation Plan through a third-party plan administrator. Last year, SFERS conducted its customary five-year review of the third-party administrator (TPA) for the SFDCP. From that review, the Board selected Great-West Retirement Services (GWRS) as the new TPA for the SFDCP, replacing ING Life Insurance and Annuity Company.

GWRS offers SFDCP participants improved plan features including lower participant fees, an enhanced core lineup of investment options, a customized website and communications, enhanced online transactions and a local service center in San Francisco.



Additionally, the Deferred Compensation Division administers the hardship withdrawal program, qualified domestic relations orders, payroll deferrals, requests for proposals, SFDCP News, and review of investment fund assessments.

As of June 30, 2010, there were 24,005 participants in the SFDCP with Plan assets valued at \$1.7 billion. The tables on pages 48-51 provide detailed information about the 18 core investment funds that make up the City's 457(b) Deferred Compensation Plan, as well as customer service activity and participation for Fiscal Year 2009-10.

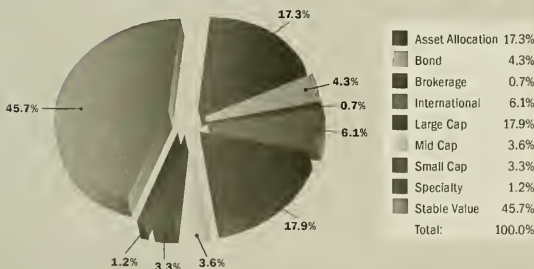
SFDCP VALUES AS OF 06/30/10

SFDCP Fund Name	Total Assets	Percentage of Assets	Annual Performance
SFDCP Long Term Portfolio	\$91,598,712.48	5.27%	16.02%
SFDCP Mid Term Portfolio	\$189,921,002.05	10.93%	13.85%
SFDCP Near Term Portfolio	\$19,591,986.25	1.13%	12.06%
SFDCP Stable Value Portfolio	\$793,852,253.39	45.66%	3.35%
SFDCP Core Bond Portfolio	\$74,330,126.21	4.28%	13.31%
SFDCP International Equity Portfolio	\$105,448,753.29	6.07%	9.81%
SFDCP Large Cap Core Equity Active Port.	\$18,650,483.48	1.07%	16.42%
SFDCP Large Cap Growth Equity Portfolio	\$187,732,814.67	10.8%	12.60%
SFDCP Large Cap Social Equity Portfolio	\$8,706,293.22	0.5%	18.44%
SFDCP Large Cap Core Equity S&P 500 Index	\$77,273,148.05	4.44%	14.45%
SFDCP Large Cap Value Equity Portfolio	\$19,413,409.53	1.12%	15.64%
SFDCP Mid Cap Core Equity Portfolio	\$41,245,659.89	2.37%	21.12%
SFDCP Mid Cap Growth Equity Portfolio	\$8,625,350.59	0.5%	23.20%
SFDCP Mid Cap Value Equity Portfolio	\$12,173,901.26	0.7%	24.93%
SFDCP Real Estate Portfolio	\$20,250,392.04	1.16%	49.77%
SFDCP Small Cap Core Equity Portfolio	\$6,519,083.94	0.37%	22.30%
SFDCP Small Cap Growth Equity Portfolio	\$18,572,321.42	1.07%	20.51%
SFDCP Small Cap Value Equity Portfolio	\$32,549,597.22	1.87%	21.48%
TD AMERITRADE Self Directed Brokerage	\$12,112,827.71	0.69%	
Total Assets At Great-West Retirement Services	\$1,738,568,116.69	100.00%	
Total Retiree Annuity Assets At ING	\$1,583,881.95		
Total Retiree Annuity Assets At The Hartford	\$17,613,019.31		
TOTAL PLAN ASSETS	\$1,757,765,017.95		

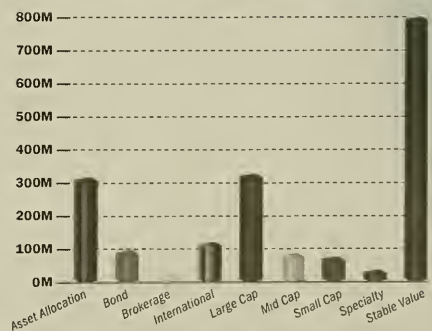
* Assets are rounded up to the nearest dollar

SFDCP ASSET SUMMARY AS OF JUNE 30, 2010

Participation by Asset Class - Percent of Assets



Participation by Asset Class - Investment Value



SFDCP PARTICIPATION BY DEPARTMENT

DEPARTMENT NAME	PARTICIPATION	DEPARTMENT NAME	PARTICIPATION
Academy of Sciences	31%	Human Resources	80%
Adult Probation	70%	Human Rights Commission	43%
Airport	50%	Human Services	64%
Animal Care, Control	70%	Juvenile Probation	42%
Art Commission	29%	Law Library	50%
Asian Arts Museum	62%	Mayor	21%
Assessor/ Recorder	62%	MTA Administration	53%
Board of Supervisors	63%	Parking & Traffic Commission	48%
Building Inspection Commission	51%	Permit Appeals	80%
Business & Economic	14%	Police	82%
Child Support Services	49%	Port of San Francisco	64%
Children & Family Commission	67%	Public Defender	65%
Children, Youth & Families	27%	Public Health	73%
City Attorney	65%	Public Library	16%
City Planning	66%	Public Transportation	43%
Civil Service	50%	Public Utilities Commission	61%
Clean Water Program	54%	Public Works	44%
Commission on Status of Women	67%	PUC - Water Department	61%
Controller	62%	PUC - Hetch Hetchy	58%
District Attorney	65%	Recreation & Park	44%
Emergency Communication	9%	Rent Arbitration Board	67%
Environment Commission	46%	Retirement System	73%
Ethics Commission	37%	Sheriff	66%
Fine Arts Museum	9%	Telecom & Info Services	57%
Fire	85%	Treasurer/Tax Collector	51%
General Services Department	81%	Trial Courts & County Clerk	52%
Health Service Systems	58%	War Memorial	18%

SFDCP CUSTOMER SERVICE ACTIVITY

GWRS LOCAL OFFICE ACTIVITY

MONTH	PHONE CALLS	OFFICE APPOINTMENTS	GROUP MEETINGS	INDIVIDUAL MEETINGS	ACCOUNT REVIEWS
January	1,166	30	44	228	113
February	1,194	45	22	167	121
March	1,084	47	30	502	306
April	1,739	20	28	395	210
May	1,659	41	53	335	185
June	905	39	11	256	164
July	978	49	10	293	188
August	896	59	38	440	274
September	1,142	51	38	502	326
October	1,071	62	17	397	271
November	1,005	45	20	455	224
December	1,264	43	19	501	264
TOTAL	14,103	531	330	4,471	2,646

VOICE RESPONSE (KEYTALK)

MONTH	ACCOUNT BALANCE	FUND TRANSFER	CHANGE PASSCODE	ORDER PASSCODE	TRANSFER TO REP.	TOTAL CALLS
July	218	7	16	72	178	491
August	275	13	7	28	92	415
September	268	20	15	33	120	456
October	262	20	11	44	122	459
November	240	13	5	26	88	372
December	267	19	8	27	3	324
January	270	20	6	45	5	346
February	181	8	4	24	64	281
March	277	15	6	39	141	478
April	353	26	6	53	160	598
May	169	18	5	39	113	344
June	181	6	3	32	93	315
TOTAL	2,961	185	92	462	1,179	4,879

INTERNET						
MONTH	ACCOUNT BALANCE	FUND TRANSFER	INVESTMENT CHANGE	CHANGE PASSCODE	STATEMENT REQUEST	TOTAL CALLS
July	2,877	348	187	612	1,854	5,878
August	3,042	510	232	537	1,801	6,122
September	3,043	466	172	498	1,907	6,086
October	3,062	504	223	532	1,960	6,281
November	2,724	356	153	400	1,641	5,274
December	2,498	309	120	364	1,509	4,800
January	3,177	512	198	528	2,196	6,611
February	2,085	329	134	296	1,386	4,230
March	3,139	438	149	417	2,205	6,348
April	4,064	541	225	507	2,933	8,270
May	2,947	638	188	386	1,933	6,092
June	2,029	317	119	265	1,519	4,249
TOTAL	34,687	5,268	2,100	5,342	22,844	70,241



